TO BE A WORLD LEADER

1996

OUR VISION

Semiconductor

CLIENT SERVER TELECOM

Mitel Corporation Annual Report

OUR MISSION:

BUSINESS SOLUTIONS

Financial

Computer Telephony Integration

PBX MULTIMEDIA

READY

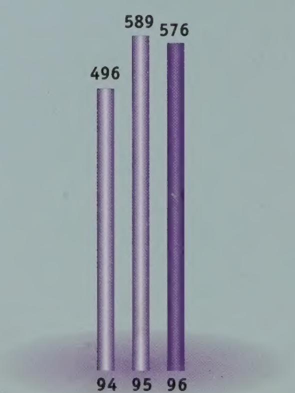
SIMPLY COMMUNICATING

Financial Highlights

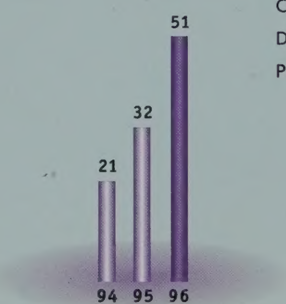
$ millions Cdn, except earnings per share amounts	**1996**	**1995**	**1994**
EARNINGS			
Revenue	**576**	589	496
Net income	**51**	32	21
Earnings per share	**.45**	.27	.16
Research & development expenses	**43**	42	34
CASH FLOW			
Cash flow from operations before working capital changes	**71**	47	41
Capital expenditures	**35**	17	16
BALANCE SHEET			
Cash & short-term investments	**137**	142	101
Working capital	**210**	208	174
Shareholders' equity	**303**	263	232
Number of shares outstanding (millions)	**106.1**	105.8	105.5

LISTINGS

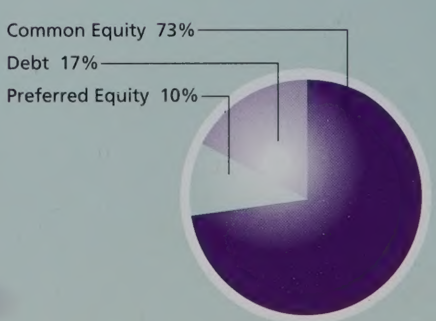
Toronto Stock Exchange
Montreal Stock Exchange
New York Stock Exchange
The Stock Exchange, London



REVENUE
($ millions Cdn)



NET INCOME
($ millions Cdn)



CAPITALIZATION

Corporate Profile

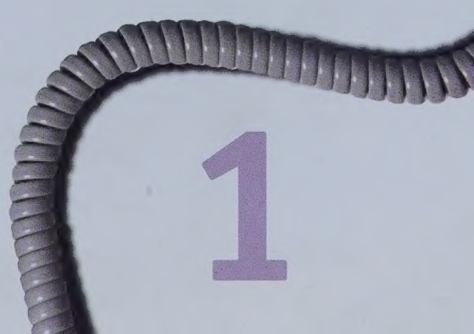
Mitel Corporation is an international communications products supplier. The Company's mission is to be a world leader in creating communications solutions that provide exceptional value to its customers. Our leadership strategy is centred on advancing people-to-people communications in an open, distributed and standards-based environment.

Mitel designs, manufactures and markets systems, sub-systems and microelectronic components for sale to world markets in the telephony, computer telephony integration (CTI) and communications industries. The Company's products include voice communications systems; public switching systems; network enhancement and gateway products; CTI systems and applications; client server telecom products; custom silicon wafers, integrated and hybrid circuits, and optoelectronic devices.

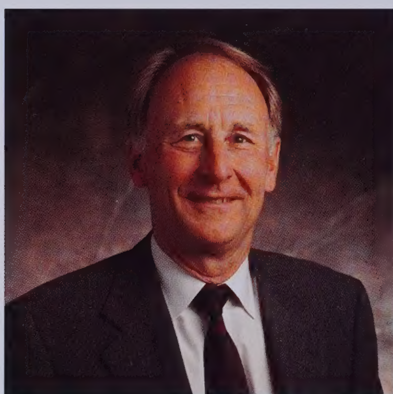
In Fiscal 1996, Mitel had revenue of $576 million and employed approximately 4,000 people at year-end in operations located primarily in Canada, the United States, the United Kingdom and Sweden. Mitel is a widely-held Canadian public company ranking among the top 100 companies publicly traded on The Toronto Stock Exchange.

For more information about Mitel and its products, please visit our web site http://www.mitel.com or contact Public & Investor Relations at 613-592-2122; by fax at 613-592-4170.

Table of Contents



Message from the Chairman



Dr. Henry Simon
Chairman of the Board

H. Simon

Mitel demonstrated, throughout Fiscal 1996, consistency of purpose in pursuing the vision struck three years ago. The vision is of barrier-free communications between people based on an open and distributed architecture, using standard components and platforms. We recognize that information technology has become the dominant focus for those who build and manage their company's various networks and that ultimately, in the interests of economy and efficiency, voice and video must join data on these information networks. Separate standard voice systems will also continue to evolve. As you will see throughout this report, Fiscal 1996 was a year of preparing at Mitel to meet the needs of both markets.

Earnings for Fiscal 1996 increased to $51.0 million, or 45 cents per share, from $31.8 million, or 27 cents per share, a year ago. Margins improved significantly from 45 percent to 49 percent in Fiscal 1996. Revenue declined slightly to $576.4 million from $589.4 million in the preceding year. Research and development expenditures at $42.7 million represented 7 percent of sales, the same percentage as in Fiscal 1995. The Company's liquidity remained strong with cash and short-term investments totaling $137.3 million at year-end.

The increase in earnings was led by a record year in Mitel Semiconductor. The continued strong performance of this business unit provided the rationale to proceed with a further $34 million expansion of its Bromont, Quebec fabrication facility and the acquisition on March 29, 1996 of the semiconductor facility of ABB Hafo AB of Järfälla Sweden from Asea Brown Boveri AB for $44 million.

The ABB Hafo business has been renamed Mitel Semiconductor AB. The facility will increase Mitel's semiconductor production and R&D capacity and continue to produce and develop its own line of integrated circuits for the medical, industrial and space markets. Mitel Semiconductor AB's high performance optoelectronic transmission components for the communications, industrial, and avionics markets complement our current successful portfolio of communications circuits and address the needs of our existing customer base. In addition to its Swedish plant, Mitel Semiconductor has manufacturing facilities at Bromont, Quebec, in Canada, and at Caldicot, in Wales.

Newly acquired: Mitel Semiconductor AB (Sweden)

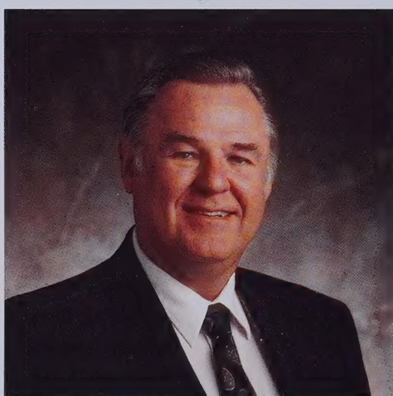
During the past year Mitel has made good progress in the development of Computer Telephony Integration (CTI) products and the channels required to deliver volume sales in future years. Products developed include packaged software for personal productivity, enhanced group-ware for call centres, telephony–enabled servers and a converged voice and data network backbone. Work continued in North America and the U.K. to create appropriate channels to market these products by training existing channels and developing relationships within channels which have been historically devoted to data communication products. This activity has set the stage for an exciting future for Mitel in the converged world of telephones and computers which is emerging as a major market opportunity.

An Expression of Thanks

It is one thing to strike a vision but to make the vision manifest is work of an altogether higher order, especially when the work must be done in the midst of hotly-competitive, rapidly changing, even chaotic market circumstances. Mitel employees remained, as usual, impervious to these distractions and continued to turn in extraordinary performances. On behalf of the Board of Directors I congratulate the senior management team and all of our employees.

A key element in the execution of Mitel's strategy is the counsel and strong support from our Board of Directors which has been strengthened with the recent addition to the Board of three new members; Mr. Peter van Cuylenburg on March 29, 1996 and Mr. Anthony L. Craig and Mr. Donald W. Paterson on May 16, 1996. Mr. van Cuylenburg and Mr. Craig have extensive experience in the information technology field while Mr. Paterson is a seasoned financial executive. These new board members will be of great benefit to Mitel in its CTI strategic direction.

President's Report



Dr. John B. Millard
President and Chief Executive Officer

In Fiscal 1996, Mitel profitably delivered high value communications solutions to its customers through market leadership, employee commitment and product and service excellence. As we transform our business by putting our core telephony competency to work in the new market of CTI, we continue to incrementally improve the performance of our communications systems core business and to grow our semiconductor division. Both of these areas produced increased margins in Fiscal 1996 over the previous fiscal year, producing the cash flows required to fund the emerging businesses while providing an increased return for our shareholders.

Semiconductors

In Fiscal 1996, Mitel Semiconductor again experienced strong demand for its IC and thick film hybrid micro-electronic components with sales growth of 38 percent over Fiscal 1995. These devices support the voice, data communications, CTI and multimedia markets. The division's wafer foundry also provides custom IC manufacturing capability to other semiconductor companies.

The acquisition of Mitel Semiconductor AB will provide this business unit with new product lines, expanded production capacity and a new infusion of talented people which will accelerate the growth levels of our semiconductor operations.

We extend a warm welcome to Mitel Semiconductor AB's 300 employees who have joined the Mitel family. In Swedish: Vi önskar er välkomna!

Business Communications Systems

NeVaDa™

Building upon the success of the SX-2000® LIGHT system with its open and distributed architecture, we recently introduced the next phase in the intelligent evolution of our product line towards convergence of multiple media, NeVaDa, Networked Voice and Data. Here, the SX-2000 LIGHT system platform functions as an integrated server on a backbone network. NeVaDa includes a systems architecture that allows existing, separate voice and data networks within a business premise to be combined and managed as a single network. NeVaDa will undergo field trials in the summer of 1996 and shipments to customers will begin in the fall of that year. In conjunction with other network features, NeVaDa systems are ideal for campus environments.

NeVaDa product introduction –
April 1, 1996 –
Networld+Interop, Las Vegas

Network Cluster Application

Multiple SX-2000® systems can be linked with the Network Cluster Application to create an integrated, centrally-managed, national or international enterprise network. The technology improves network performance, minimizes operating costs and allows system owners to evolve toward tomorrow's converged voice and data infrastructures.

MEDIAPATH, A JOINT MITEL/DIGITAL DEVELOPMENT PROGRAM, DEBUTS AT THE CT EXPO TRADE SHOW IN LOS ANGELES.

MediaPath™

MediaPath is a Windows NT®, server-based platform that provides telecommunications and computing functions in a single, integrated, open and standards-based product. The development is being done in conjunction with Digital Equipment Corporation and is initially being implemented on Digital's Alpha™ server. It also incorporates Microsoft Corporation's Back Office™ and Exchange. MediaPath systems will be in field trials early in Fiscal 1997 with customer shipments expected within a few months thereafter.

Investment Protection

A long-standing tradition at Mitel for its business communications systems is a commitment to an evolution strategy for both the SX-2000 LIGHT and SX-200® LIGHT systems that protects the system owners' investment. Today the evolution takes these systems smoothly from digital to broadband technology.

CTI@WORK™

In September 1995, we released CTI@WORK, a family of Personal Computer Telephony Solutions developed jointly with Aurora Systems Inc. and Q.Sys. International Inc. These solutions provide off-the-shelf CTI capabilities at a fraction of the cost of enterprise-wide solutions. In March 1996, we broadened the CTI@WORK product family by adding the SIMON solution for Mitel's SX-200 LIGHT customers.

RADICALL™

During Fiscal 1996, we were successful in signing key contracts with major Regional Bell Operating Companies in the United States for our RADICALL Set Handler product. Southwestern Bell, Bell Atlantic and Pacific Bell have committed to the RADICALL program. The U.S. companies which now distribute RADICALL represent access to over fifty percent of the total U.S. Centrex market. Internationally, Mercury Communications, the second largest public network operator in the United Kingdom, is launching a "Small Site Centrex" service based on RADICALL.

Regional Highlights

North America

In Fiscal 1996, Mitel's North American operations recorded lower sales volumes due to competitive pressures brought on by the increase in its market share over the preceding two years. Transition of the distribution channels from traditional PBX sales to a broader portfolio, including CTI solutions, remains a key strategic thrust.

Value-added selling was the key to increasing margins during Fiscal 1996. Emphasis was also directed at training Mitel sales and field technicians and the dealer channel on selling and supporting CTI-related products. Mitel continued to provide a high level of service to the largest segment of the business market, companies with 50 to 250 employees. Among high-profile customers were the U.S. NASDAQ stock exchange, noted for employing advanced technology on behalf of its customers and employees; Universal Care, a Los Angeles-based Health Management Organization; Hyatt Hotels; New York Law School; and Corel Corporation.

Europe

Broadening existing channels improved the Company's reach into European markets while the U.K. enhanced distribution by adding new channels. Bailey Telecom Limited has become a full Mitel dealer and Nessco in Scotland has become an SX-2000 LIGHT dealer, continuing a long-standing relationship with Mitel.

In the Netherlands, a major distribution agreement was struck with Triple P, the Netherlands' leading systems integrator and value-added reseller. Triple P will provide Mitel's CTI platforms and related products throughout the Netherlands with plans to extend distribution to other European countries where it has a market presence.

In product developments, a new voice system was designed expressly for the U.K. market, based on the SX-200 LIGHT and aimed at companies that need up to 200 telephones.

Asia Pacific

In Asia Pacific, we continued to develop indirect distribution of PBX products for those national markets exhibiting the most rapid growth. Our joint venture in Tianjin, China, Tianchi-Mitel Telecommunications Corporation, is moving ahead on schedule in the production of Mitel systems and in the local sourcing of high volume circuit cards.

The Future

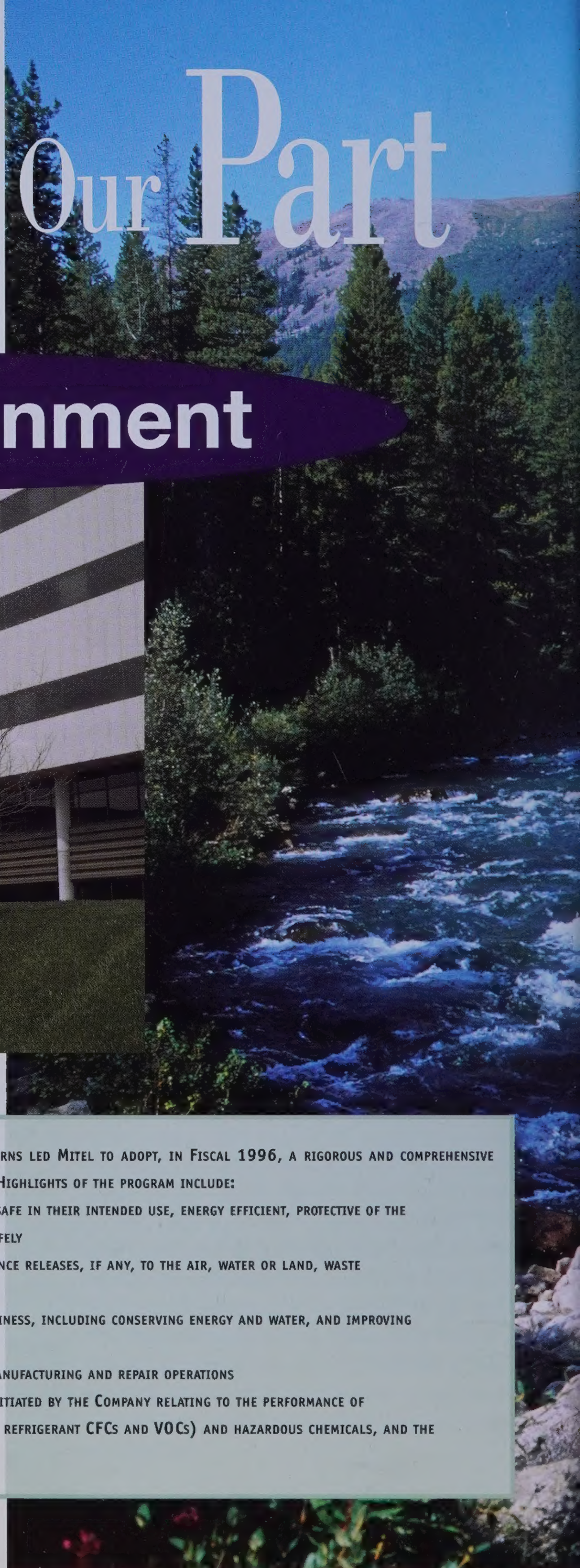
Looking ahead to Fiscal 1997, we are committed to following our strategies in the convergence of communications and computing. These growth markets will offer opportunities for new products in semiconductors as well as business communications systems. Mitel is set to be a significant player in the convergent future.

This commitment will enhance the appeal of our product portfolio in all our market areas, both to end users and to new information technology partners. The enthusiastic response to our new products at the various CTI trade shows gives us momentum in our direction and solidifies our desire for cooperation with partners in a standards-based and open systems approach.

Strengthening channels to market in the U.K.

Doing Our Part

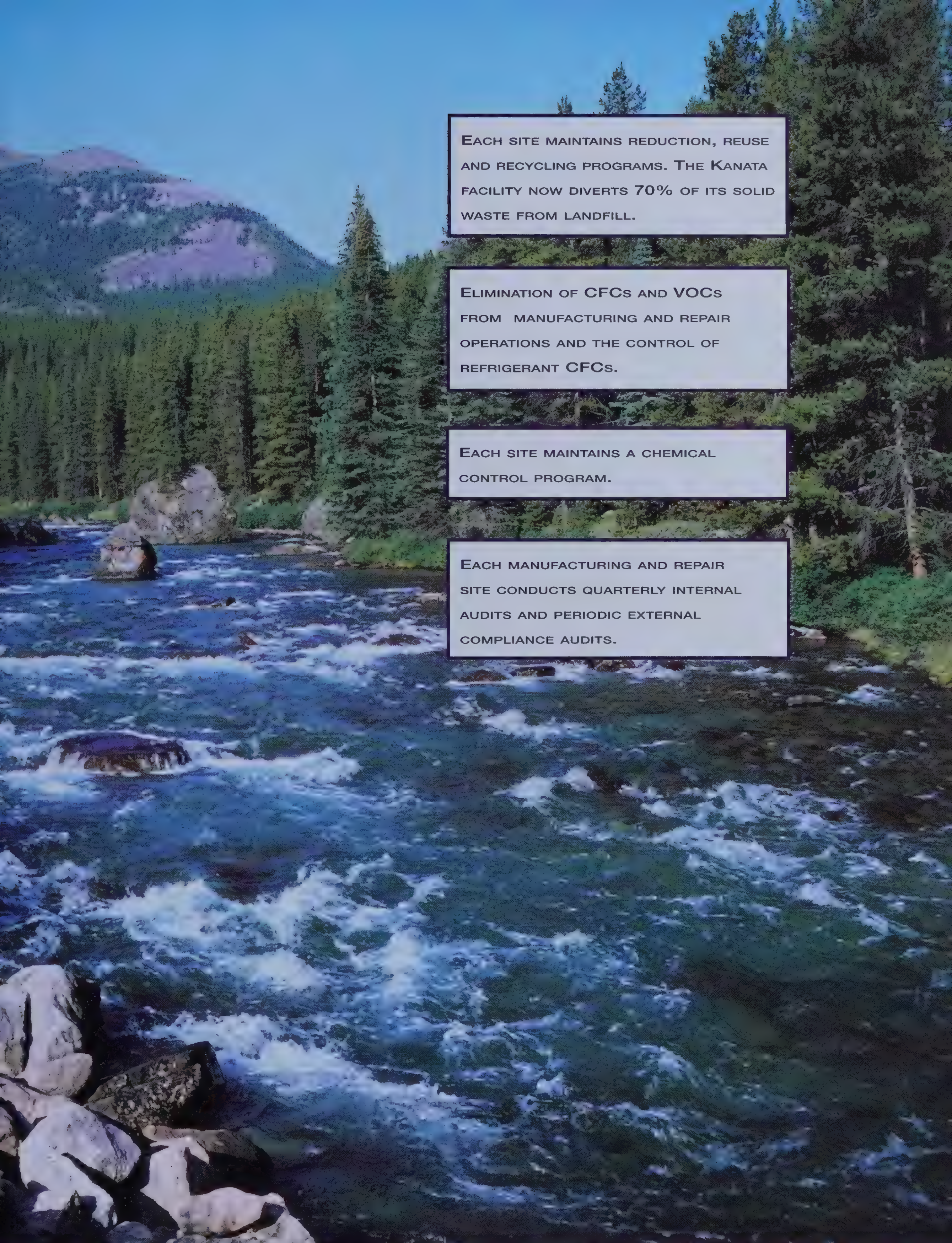
The Environment



A commitment to good corporate citizenship and employee concerns led Mitel to adopt, in Fiscal 1996, a rigorous and comprehensive environmental management program for Mitel sites worldwide. Highlights of the program include:

- a renewed emphasis on the manufacture of products that are safe in their intended use, energy efficient, protective of the environment and that can be reused, recycled or disposed of safely
- activities aimed at eliminating or reducing hazardous or nuisance releases, if any, to the air, water or land, waste discharges and the use of hazardous materials
- encouraging responsible use of resources throughout our business, including conserving energy and water, and improving energy efficiency
- conducting or participating in environmental audits of our manufacturing and repair operations

This program builds upon successful environmental programs initiated by the Company relating to the performance of environmental audits, the control of air emissions (specifically refrigerant CFCs and VOCs) and hazardous chemicals, and the management of solid waste.



Each site maintains reduction, reuse and recycling programs. The Kanata facility now diverts 70% of its solid waste from landfill.

Elimination of CFCs and VOCs from manufacturing and repair operations and the control of refrigerant CFCs.

Each site maintains a chemical control program.

Each manufacturing and repair site conducts quarterly internal audits and periodic external compliance audits.

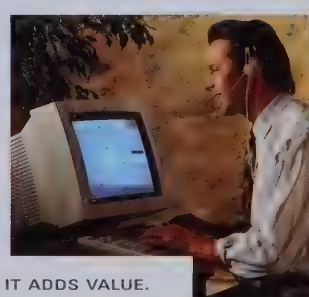
Policy and specific environmental information available upon request: Mitel Corporation, 350 Legget Drive, P.O. Box 13089, Kanata, Ontario K2K 1X3 Phone: (613) 592-2122, ext. 2223

Business Communications Systems

North America

Mitel has a track record of developing products with our customers' future in mind. This record is based on the simple concept of open platforms, compatibility of peripheral devices and flexibility of applications all with the purpose of providing a migration path toward multimedia convergence.

Flexibility that meets today's needs – ***anticipates*** tomorrow's requirements.



Multimedia to the desktop, where it adds value.

We had three principal goals in Fiscal 1996. The ongoing training and education of both our sales staff and technical staff was a primary goal. All sales and technical staff continued to receive training on the mainstream product portfolio. Advanced applications such as networking, voice processing, call distribution and CTI were also a focus.

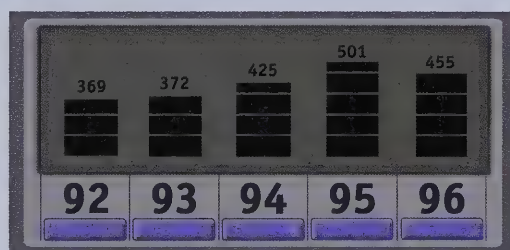
The second goal was the maintenance of revenue streams in our core product portfolio in a highly competitive marketplace. Retaining our position among our traditional competitors was a difficult task as we make the transition into the newer CTI markets.

The third objective was to continue to provide programs that would allow our customers to leverage technologies available today into the converged world of tomorrow. We accomplished this through intelligent evolution upgrade programs for our entire product portfolio. These programs allow our customers to "future-proof" their current investment.

It was a year of transition for Mitel's North American Mainstream Distribution, encompassing Mitel Elite Dealers, Mitel Dealers, Canadian and Caribbean telephone companies, Mitel de Mexico, and the U.S. federal government. These organizations were expanding their focus to an increasing emphasis on new CTI applications. In our Direct Sales operations, the call centre operations for all of North America were consolidated at Kanata's new Customer Care Centre. The Company also sold all of its non-Mitel PBX and Key System base in order to focus on Mitel's current and future product lines. A strategic accounts organization was created to manage key national and international customers based in North America.

There were many key accomplishments during Fiscal 1996, one of which included the sale of a 17-node SX-2000 LIGHT network to meet the integrated voice and data needs of Universal Care, a Los Angeles-based Health Management Organization. In addition, Hyatt Hotels selected Mitel as a preferred supplier and put SX-2000 LIGHT systems into several new hotels. New York Law School, a law school located in the heart of New York City, chose Mitel to meet its communications needs. Corel Corporation, one of the world's largest software companies, installed an international SX-2000 LIGHT network with sites in Salt Lake City, Utah in the United States, in Ottawa, Canada and Dublin, Ireland.

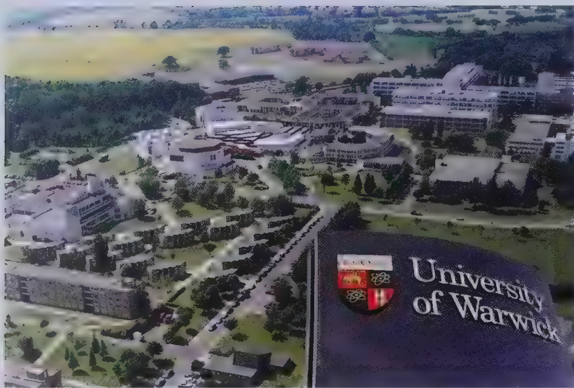
Mitel's North American operations are positioned to be a major growth engine in Fiscal 1997 as they roll out new products for the small enterprise, drive continued growth in SX-2000 LIGHT sales and capitalize on the CTI emerging market.



Business Communications Systems Revenue ($ millions Cdn)

Europe

Growth for Mitel resulted from the successful implementation of a key account management program, faster new product introductions, the establishment of new, indirect distribution channels and growth on the international front.



Alan Robiette

Director of Information Technology
at the University of Warwick

"In selecting a new telecom supplier we were keen to explore the potential of CTI, and Mitel certainly qualified on that score. We liked the Mitel platform's modularity and its open and distributed architecture. And we also liked the Mitel people who act more as a partner than simply a supplier."

The key account management program, developed in Fiscal 1995, focused on bringing complete solutions, including CTI, to Mitel's best customers in key vertical markets in the U.K. Mitel used the new Network Cluster Application to provide an SX-2000 LIGHT network for the University of Warwick. The system, with an initial capacity of 4,800 extensions, uses underground fibre-optic cable to link buildings on a 500-acre campus. The final stage of the London Metropolitan Police network was completed in Fiscal 1996 and brought the total number of Mitel PBX systems on the network to 250.

A milestone for the CTI-based call management system, Mitel SuperVisor, occurred when the one hundredth system was sold to Northcliffe Newspapers. Thirty-five agents will use the system to handle calls to the paper's classified advertising department. Product introductions included a new SX-200 LIGHT-based voice system designed for medium-sized companies.

During the Fiscal 1996, Bailey Telecom Limited became a distributor of Mitel equipment in the U.K., broadening its long-established role as a supplier of service and technical support for Mitel products. Bailey Telecom Limited is a wholly-owned subsidiary of NG Bailey which has sales of approximately $500 million.

Sales in international markets continued to grow. New distributors included OFOQ Communications in Saudi Arabia and Triple P in the Netherlands, and progress was made to form new indirect sales channels in Germany and Italy for value-added products.

For the second consecutive year, Mitel sponsored the Challengers' Trophy event, Europe's premier inter-business event which offers four days of intellectual and physical challenges. This major event for blue chip companies has now raised more than $400,000 for charity.

End User Comment

Asia Pacific

In December 1995, Mr. Kan Tung was appointed General Manager, Mitel (Far East) Ltd. Mr. Tung has been employed by Mitel since 1980 and was most recently Deputy General Manager of Mitel (Far East) Ltd.

Highlights in the region included: the introduction of ISDN functionality on the SX-2000 LIGHT in Hong Kong; the launch of CTI in New Zealand; the establishment of distribution channels in emerging markets such as India and Vietnam; and the expansion of distribution networks in growth markets including Hong Kong, Thailand and Malaysia.

Major sales in China included eight SX-2000 LIGHT systems for the Yellow River-Qingdao Water-Redistribution project as well as two SX-2000 LIGHT systems for the People's Liberation Army. All of these contracts were concluded by Tianchi-Mitel Telecommunications Corporation, Mitel's 50%-owned joint venture in China.

In Hong Kong, SX-2000 systems of approximately 2,500 lines each went to three large hospitals. In Bangladesh, an 1,100-line SX-2000 system was sold to a major project.

In the year ahead, CTI products will be launched in Hong Kong, Taiwan, and China.

Hong Kong, a growth market, part of Mitel's Asia Pacific focus.

CTI - Computer Telephony Integration

Since the 1980s, the technology required to link computing and telephony has been under development throughout the telecom and computing industries. First used to combine mainframe computers with proprietary telecommunications applications, the technology today has shifted rapidly toward distributed computing and open standards. The end result is a simplification of the networking infrastructure required by a company to manage effectively its voice and data communications.

Mitel products are fulfilling the promise of CTI in open, scalable systems that provide competitive and cost advantages even for small to mid-sized businesses. Mitel is rapidly becoming a leader in creating, manufacturing and marketing CTI technology and in offering solutions based on two distinct approaches.

In the first approach, the PBX evolves toward the world of computing, opening its architecture to third-party developers and interfacing to the computer network. The second approach starts on the computing side and adds telephony functions directly to the computer (e.g. MediaPath), creating an open, scalable platform that provides complete computing and telecommunications functionality in one integrated system.

The next logical step in the evolution of CTI would be a single system and a single network that gives the enterprise an implementation that covers voice, data, video, computing and all of its business processes. The technology for this advancement is being delivered now, from Mitel.

Voice plays a key role in people-to-people interaction and, as such, must become an integral component of a converged infrastructure. There it will furnish the clarity and simplicity for which human communication is noted.

NeVaDa – integrates, simplifies, improves business communications.

CTI - Mitel's Vision

Mitel believes that CTI is more than an interface between the telephone network and the computer. We see the real potential for CTI in the value created when people and the relationship aspects of business are integrated with the business processes and technology infrastructure. In our vision, CTI extends beyond the functional integration of computing and telecommunications to embrace the convergence of computing and telecommunications from the desktop to the workgroup to the enterprise backbone and out into the wide area network (WAN).

NeVaDa

With the upcoming introduction of NeVaDa in the summer of 1996, the Company's vision of truly integrated, single-infrastructure voice and data will become a reality. NeVaDa is the latest step in the continuing evolution of the SX-2000 LIGHT system. In this new role, the system functions as an integrated call server on a common enterprise backbone. NeVaDa uses a Madge Networks switching module to transport voice, video and data traffic over a single, integrated network. Also incorporated is a unified interface that consolidates the management of this new, converged network. The architecture uses standards-based OC-3 fibre-optic technology. A workgroup hub in such a network typically supports as many as 192 voice ports or telephone sets. In essence, the SX-2000 LIGHT provides complete call control services in a broadband, enterprise network that is in turn connected to outside public or private networks.

By using a modular, building-block approach, NeVaDa reduces the complexity of backbone cabling infrastructure in an enterprise by eliminating the need to supply separate wiring for voice and data. Redundancy in telecom servers is optional but easily added to the system and growth is accomplished in the same manner by simply adding modules. Hubs in this network support a variety of Local Area Network (LAN) technologies while Mitel's T1/E1 links provide WAN access.

The LAN data network infrastructure is based on Madge MultiNet™ intelligent switching hubs and modules, and MultiMan™ network management products. NeVaDa will be in field trials in the summer of 1996 and volume shipments will follow in the fall of 1996.

Client Server Telecom - MediaPath

Building on Mitel's expertise in server-based telecom components and call processing technology, this division has developed MediaPath, a server-based platform that provides telecommunications and computing functions in a single, integrated, open and standards-based product.

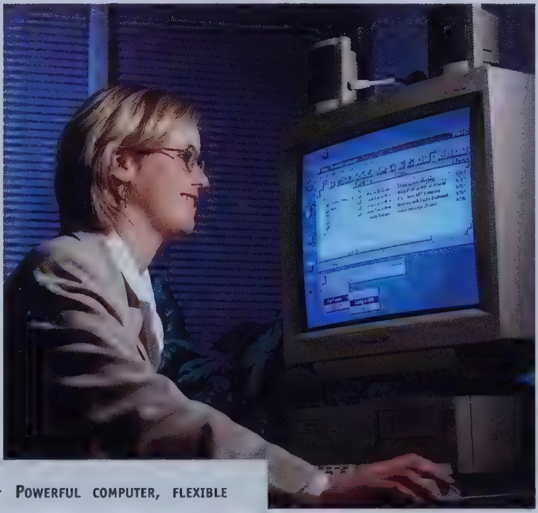
The product is being developed in conjunction with Digital Equipment Corporation and has initially been implemented on Digital's powerful Alpha server, running Microsoft's Windows NT and Exchange. Software from Digital will provide unified messaging capability. A user can query the system directly, or remotely from a telephone, in which case text messages are converted to speech and read over the phone, along with the headers of faxes. Messages can also be retrieved from another computer.

The MediaPath platform combines Mitel's PC network interface cards, Connection Master™, Media Master and Call Master with the newest Microsoft technology, Windows NT, Back Office and TAPI, to introduce advanced client server telecom and media processing services in a single, integrated system.

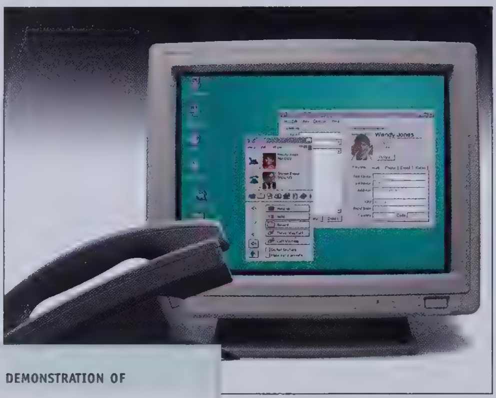
The MediaPath is being created by Mitel's Original Equipment Manufacturer (OEM) partners to whom the server hardware boards and software it uses are being sold. These components give Mitel's partners the public network access and connection control capabilities they need to build advanced telecom applications. With the introduction of telecom servers, a new market is being created. The MediaPath platform is clearly in the vanguard of this market.

Next Generation of Fully Convergent Systems

Exploratory development is under way on the next generation of fully convergent systems. The continued trend of integration of telephony and computing systems will lead to complex multimedia systems in the future. These systems will have common broadband hardware and will utilize new software technologies. Because of the need for flexibility and multiple application, Mitel is investigating the use of intelligent agent-based software systems to satisfy these diverse requirements.



MediaPath – Powerful computer, flexible telephone system, single platform.



WORLD'S FIRST DEMONSTRATION OF TELEPHONY ON THE UNIVERSAL SERIAL BUS.

NEW CLASS OF PC PERIPHERALS

Mitel Corporation is the first telecommunications company in the world to take the Universal Serial Bus (USB) concept and demonstrate actual USB telephony. This demonstration in February 1996 is another example of Mitel's leadership in the CTI marketplace and further confirms Mitel's commitment to open architectures.

Mitel is part of a consortium of companies, including Intel, Microsoft, Compaq and others from the PC and telecommunications industries that are developing and backing the USB as a new open standard for connecting peripherals to the PC.

Designed to provide a standard, low-cost "plug-and-play" interface between PCs and peripherals, the USB brings higher speed PC-to-peripheral communications, allows for hot attach/detach of peripherals, and provides for the connection of multiple devices to a single serial port. The integration of computer and telephone technologies has great practical value for the business person of today. USB PC users will now be able to plug in peripherals, such as Mitel's USB telephony devices, with the same ease as plugging into an AC power outlet.

Mitel's USB-enabled computer telephony peripherals will help with harmonizing work and family activities for the telecommuter and other home office workers by turning their PC into a personal assistant that screens calls, takes and leaves messages, sets up conference calls, forwards calls, reads e-mails and even understands spoken commands.

STANDARDS COMMITTEE PARTICIPATION

Mitel is a founding member of the Universal Serial Bus Implementers Forum, USB-IF, a group dedicated to ensuring compatibility between CTI plug-and-play devices from different manufacturers and MVIP, Multi-Vendor Integration Protocol, and its global trade association, GoMVIP. Mitel is also a member of the Enterprise Computer Telephony Forum (ECTF), groups that foster an open, competitive market for CTI technology to give users the freedom to choose and interconnect equipment from a variety of manufacturers in satisfying their requirements. During Fiscal 1996, Mitel's Integrated Services Digital Network (ISDN) Conformance Laboratory achieved Standards Council of Canada IT&T accreditation to ISO Guide 25 (CAN-P4), making it the only accredited Canadian laboratory to be North American standards-approved for both narrow and broadband ISDN. Mitel also currently participates in the Workgroup Committee of the ATM forum, a body devoted to insuring compatability between various vendors' ATM implementations.

RADICALL Set Handler

Over the past year, RADICALL has achieved distribution through Regional Bell Operating Companies (RBOCs) and other telephone companies in the United States which, together, represent access to more than fifty percent of the total U.S. Centrex market.

Southwestern Bell launched RADICALL to enhance delivery of its primary Centrex offering, Plexar®.

Bell Atlantic has chosen RADICALL as part of both its small and large business Centrex solutions.

Mercury Communications, the second largest public network operator in the United Kingdom, is launching a new "Small Site Centrex" service based on RADICALL. Mercury assisted Mitel in enhancing the product to add value in fibre-based network applications with a 2 Mbit/s (E1) digital network interface module which provides significant benefits when delivering Centrex services in the United Kingdom.

Currently the RADICALL system is being adapted for use in ISDN and CTI applications to add flexibility to RBOC Centrex portfolios.

Mitel was successful in building a solid distribution channel for RADICALL in Fiscal 1996. We are now working closely with each of our network service provider partners to maximize revenue volume potential while we continue to build further distribution in North America and Europe.

GX5000®

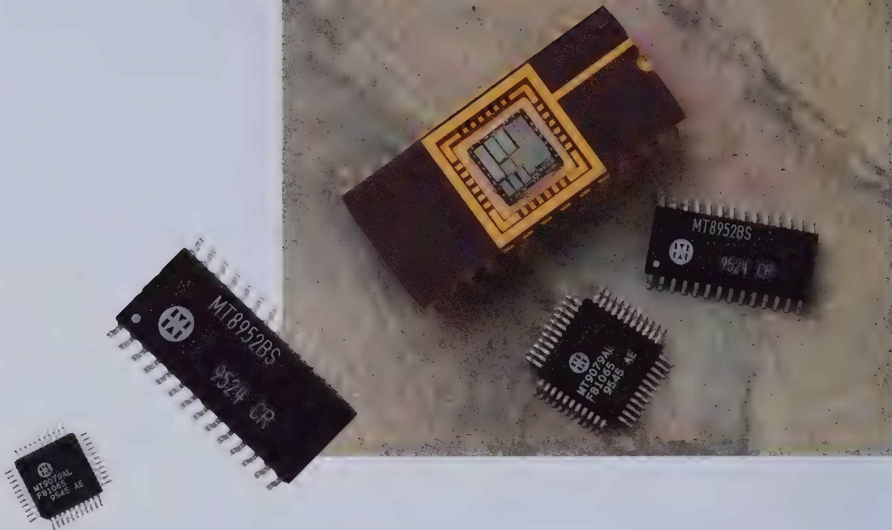
The GX5000 product portfolio serves the under-5000 line digital central office market, with a focus on independent telephone companies in the United States and selected international phone companies. Sales growth of GX5000 systems in the United States over the last four years has been significant and a change from single switch to multi-switch contracts indicates improved market penetration. Systems are in service in more than a hundred towns from Alaska to Alabama as well as in Africa, Asia, Central and South America.

The GX5000 system offers competitive advantages in its small footprint, low power consumption and small number of card types for a switch of comparable size and life cycle cost. The product's distributed architecture allows it to readily support complex new features. Changes in legislation, the need for high-speed Internet access, and trends in telecommuting are fueling demand for basic rate ISDN service in the United States, a new growth area for the GX5000.

Call Controllers

The Call Controller group manufactures SMART-1® fax and voice call controllers, products recognized as the industry standard for network routing applications, and is the leading call controller supplier in North America and the United Kingdom. The devices will permit telecom carriers and resellers to offer a seamless connection to the network for their business customers at no extra charge. More than 900,000 controllers have been shipped worldwide.

In Fiscal 1996, the group obtained regulatory product approvals in Australia, Japan, Germany and Mexico, in respect of connecting Mitel's Call Controllers to their public telephone networks. This paves the way for signing distributors in these countries. The controllers will next be marketed in France, Holland, Italy, and Spain, where deregulation in long distance services opens the market to these versatile devices.



Semiconductors

GROWTH STRATEGY:

PROVIDING SOLUTIONS IN THE DEPLOYMENT OF ADVANCED ***COMMUNICATIONS*** CAPABILITIES.

BACKGROUND

THE INFORMATION PROVIDED HEREUNDER RELATES TO MITEL SEMICONDUCTOR PRIOR TO ITS ACQUISITION OF ABB HAFO AB ON MARCH 29, 1996, WHICH IS COVERED UNDER "ACQUISITION" BELOW.

ABB Hafo AB ACQUISITION PROVIDES PRODUCTION AND R&D CAPACITY, AND EXCITING NEW PRODUCTS.

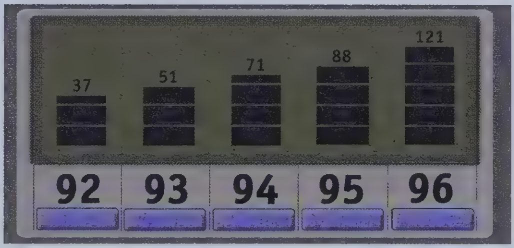
For two decades, Mitel Semiconductor has been designing, manufacturing and marketing integrated circuits (ICs) and thick film hybrid microelectronic components. Specializing in supporting the telephony, data communications, and computer telephone integration markets, Mitel Semiconductor components provide high value to our customers who build PBX, central office, high speed networking, data communications, wireless, and CTI products.

Additionally, our custom wafer foundry services provide integrated circuit manufacturing capability to other semiconductor companies that build a variety of products such as Charge Coupled Devices used in video cameras, digital/analog converters used in many applications including CD players, and medical electronics for applications such as blood diagnostic equipment.

Over the years, Mitel Semiconductor has achieved a number of industry firsts. For example, in pioneering analog switches we delivered the first 8 X 4 crosspoint switch which became the foundation of Mitel's highly successful SX-200 PBX system. We introduced the first all-digital PCM digital crosspoint switch and ST- BUS™, the first open standards telecom component interconnect bus.

In other firsts, Mitel Semiconductor developed the first 2B+D echo cancellation transceiver using biphase technology; pioneered the standard for the 2B1Q interface and brought out the first ISDN "U" interface 2B1Q transceiver. As demand for digital technology continued to grow, we developed the first n x 64 (contiguous channel), constant delay, digital switch for multimedia applications and introduced the first fully integrated, single supply rail, digital telephone IC.

We were a founding member of Multi-Vendor Integration Protocol (MVIP), an enabling technology that is once again a key element in Mitel's CTI portfolio of products. We developed the first fully-integrated primary rate transceiver; introduced the first Calling Line ID integrated circuits that met all North American and European standards; and developed the world's first Distributed Hyperchannel Switch conforming to the GoMVIP MC-3 standards for use in campus-wide, multimedia applications.

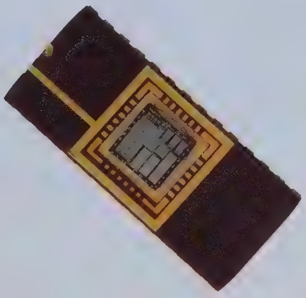


Semiconductors Revenue
($ millions Cdn)

Business Direction

Demand for the division's products continues to grow at a significant rate. Mitel Semiconductor is recognized by its customers as a solutions provider. Our product is much more than the physical device that comes out of our factory. It includes systems design knowledge and applications support backed by world-class product development and manufacturing capability, excellent logistics, with global sales and distribution.

Our customers are in the business of designing and marketing a wide range of equipment to serve in diverse industries the world over. Mitel Semiconductor is considered a low risk supplier, given its solid reputation for helping customers to get the job done.

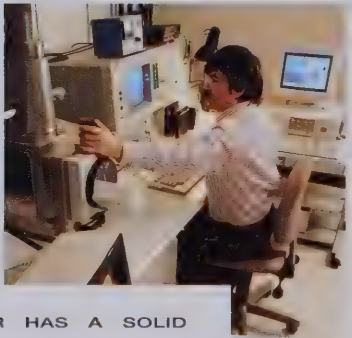


Mitel semiconductor's range of high quality, high value components are finding increasing application in China.

The Future

At Mitel Semiconductor we believe the world is at the beginning of an explosion in the deployment of advanced communications capabilities. We see the backbone of this deployment as the real-time capability inherent in the global switched public telephone network, a system which has been under continuous development for over one hundred years. Our customers in developing economies look to us to provide systems engineering and product technology in support of their drive to improve their public telephone network capability quickly. As an example, Mitel Semiconductor is a significant supplier of analog and digital switching technology to the local PBX and central office equipment providers in China.

In developed countries where basic telephone service is widespread, network expansion is driven primarily by data traffic and mobility. Due in large measure to the success of providing high performance computing at low cost, more than half the traffic processed through the public telephone network is computer data traffic. Again, Mitel Semiconductor is at the forefront, developing a wide range of products to allow the smooth integration of store-and-forward and multimedia computer data with traditional voice traffic. For example, Mitel Semiconductor provides a key piece of technology that allowed Mitel to develop jointly with Madge Networks, the NeVaDa integrated voice and data backbone.



Mitel Semiconductor has a solid reputation for getting the job done.

Sales and Distribution

Mitel Semiconductor sells in over 100 countries with sales offices in Canada, the United States, the United Kingdom, Germany, Japan, Brazil and Singapore with its head office and core marketing and product development in Kanata, Ontario, Canada. Manufacturing facilities are in Bromont and Kanata in Canada and Caldicot in Wales. All manufacturing facilities conform in practice with, and are registered to, appropriate ISO 9000 quality standards.

A significant network of highly-trained distributors and representatives extend our ability to sell and market our products. More than 85 percent of sales are made through our indirect distribution network. This helps minimize selling expenses and buffers us from issues associated with dealing in local currencies. The remaining sales typically consist of large multinational customers whose size and strategic value necessitate a direct relationship. Our world-class applications support group provides design assistance to our customers. This approach to selling results in a high percentage of design wins and encourages long-term relationships with our customers.

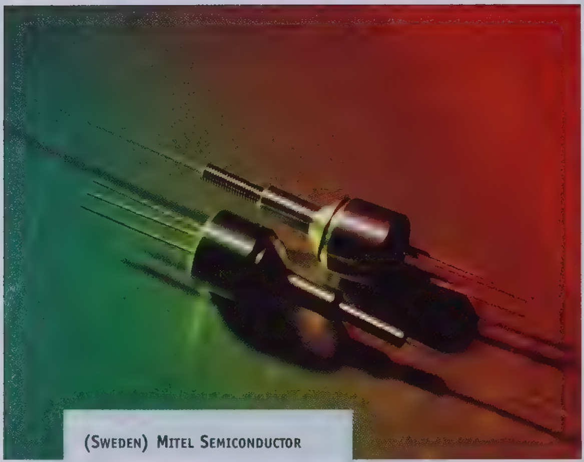
Product Development

We take a systems approach to products, embedding our knowledge in microelectronic components. Our success is often based on the fact that we have the most comprehensive range of compatible products that are easy for our customers to use. We provide a complete solution in the form of various products that work together and ensure the minimum requirement for external parts. We also make our designers available to customers, typically at the conceptual design phase, to further mitigate risk in achieving successful implementation of the product.

Wes Grainger

Senior Manager Purchasing
Northern Telecom,
Calgary, Alberta

"Mitel Semiconductor had the leading edge technology and the expertise to meet our critical time to market requirements. We were very impressed with Mitel's responsiveness and commitment to customer satisfaction."



(Sweden) Mitel Semiconductor AB's optoelectronic components complement our current communications portfolio.

Our primary design centres are in Kanata, Canada, and Caldicot, Wales, with prime sub-contractors that can provide specialty services in specific technology areas, operating from Canada, Holland, and Brazil.

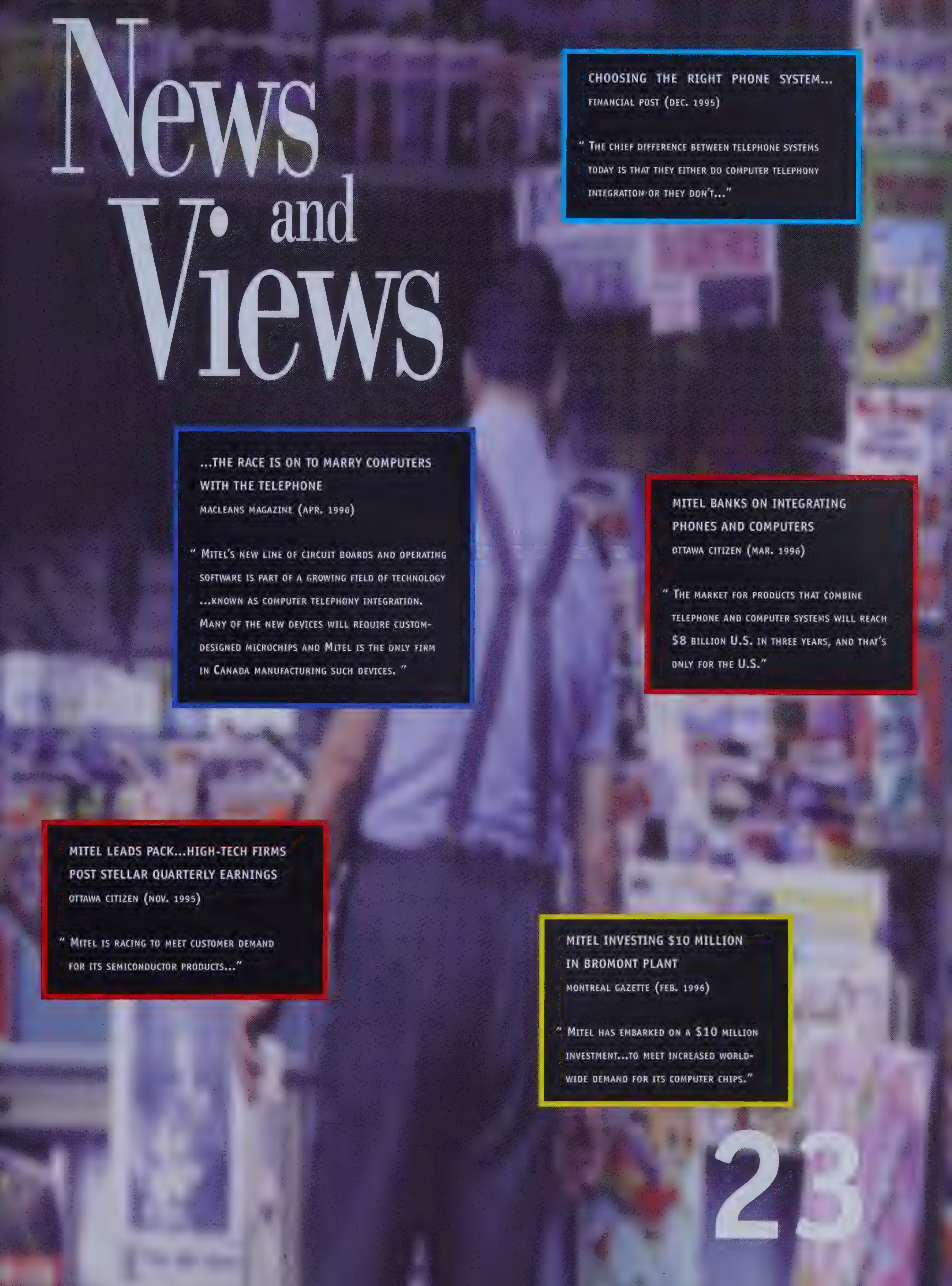
Our main manufacturing capability, at Bromont, Quebec, is operating at full capacity, and as a result, we are upgrading the facility to 6-inch wafers to provide additional capacity. We manufacture thick film hybrid microelectronic components in Wales. The plant produces line and trunk circuits which are sold to a variety of international customers. We also source both integrated circuit and thick film hybrid manufacturing capacity from suppliers in Europe, Asia, and the United States.

Acquisition

On March 29, 1996, Mitel completed the acquisition of ABB Hafo AB of Sweden, which has been renamed *Mitel Semiconductor AB*. In addition to providing ongoing business in aerospace, medical, and communications markets, the acquisition sets the foundation for the continued growth of Mitel Semiconductor. As a research centre, this facility brings us a wide range of technologies including Bi-CMOS; Low Voltage, Low Power, Gallium Arsenide; Indium Phosphide; High Voltage CMOS; and Silicon on Sapphire.

These base technologies, in conjunction with Mitel Semiconductor AB's excellent mixed-signal design skills, will allow the continuing development of our business in new but related markets. For example, Mitel Semiconductor AB's optoelectronic components are a natural complement to our current, very successful data communications components.

The acquisition provides additional manufacturing capacity and, over time, a redundancy which will satisfy customer concerns over security of supply. Our goal is to maintain two identical semiconductor fabrication facilities, a goal we believe to be critical in continuing to successfully serve large, multinational companies.



News and Views

CHOOSING THE RIGHT PHONE SYSTEM...
FINANCIAL POST (DEC. 1995)

" THE CHIEF DIFFERENCE BETWEEN TELEPHONE SYSTEMS TODAY IS THAT THEY EITHER DO COMPUTER TELEPHONY INTEGRATION OR THEY DON'T..."

...THE RACE IS ON TO MARRY COMPUTERS WITH THE TELEPHONE
MACLEANS MAGAZINE (APR. 1996)

" MITEL'S NEW LINE OF CIRCUIT BOARDS AND OPERATING SOFTWARE IS PART OF A GROWING FIELD OF TECHNOLOGY ...KNOWN AS COMPUTER TELEPHONY INTEGRATION. MANY OF THE NEW DEVICES WILL REQUIRE CUSTOM-DESIGNED MICROCHIPS AND MITEL IS THE ONLY FIRM IN CANADA MANUFACTURING SUCH DEVICES. "

MITEL BANKS ON INTEGRATING PHONES AND COMPUTERS
OTTAWA CITIZEN (MAR. 1996)

" THE MARKET FOR PRODUCTS THAT COMBINE TELEPHONE AND COMPUTER SYSTEMS WILL REACH $8 BILLION U.S. IN THREE YEARS, AND THAT'S ONLY FOR THE U.S."

MITEL LEADS PACK...HIGH-TECH FIRMS POST STELLAR QUARTERLY EARNINGS
OTTAWA CITIZEN (NOV. 1995)

" MITEL IS RACING TO MEET CUSTOMER DEMAND FOR ITS SEMICONDUCTOR PRODUCTS..."

MITEL INVESTING $10 MILLION IN BROMONT PLANT
MONTREAL GAZETTE (FEB. 1996)

" MITEL HAS EMBARKED ON A $10 MILLION INVESTMENT...TO MEET INCREASED WORLD-WIDE DEMAND FOR ITS COMPUTER CHIPS."

Glossary of Terms

2B+D Echo Cancellation Transceiver: A device that implements ISDN basic rate access (2b+d) and that reduces echo interference in the signal path. ISDN Basic Rate Access provides two 64 Kbit/s channels for user traffic and one 16 Kbit/s data channel for signalling information.

Analog: A signal that varies continuously over time.

Bi-CMOS: A technology incorporating bipolar devices and CMOS devices for high speed applications.

Call Centre: Groups of people, telephones, and computers organized to permit service agents to efficiently answer calls from, or direct calls to, large numbers of people. Call centres are often identified by a 1-800 number and make use of ACD technology.

Calling Line ID: A class of service received from local telephone company.

CMOS: Complimentary Metal Oxide Semiconductor: A technology that combines low power with high speed performance in a semiconducting device.

Client Server: A distributed computing architecture whereby the client is an application user on a LAN, and the server provides access to common applications and group services for database and file sharing.

CTI: Computer Telephony Integration: The integration of computing and telephony into one system. Initially this is accomplished when a telephone switch passes certain call information to a computer, allowing the computer to manage the call based on a command from a software application. Also refers to the process of using an adjunct computer to provide computing activities for a PBX.

CTI@WORK: A family of Personal Computer Telephony Solutions.

Enterprise Computer Forum (ECTF): CTI standards setting body.

Gallium Arsenide: A man made semi-conductor crystal composed of the elements Gallium and Arsenic. The electrical and optical properties of the crystal are suitable for producing high speed electrical and optical components.

GoMVIP: A global Multi-Vendor Integration Protocol trade association.

GX5000: Mitel's compact, digital central office switch used by small independent telephone companies in North America and around the world.

Indium Phosphide: A III-V semiconductor compound, particularly suitable manu-facturing optical components operating in the wavelength region of 1300-1550 nm, which is where the Silicon fibre has the lowest attenuation of light.

Integrated Services Digital Network (ISDN): An infrastructure designed to deliver digital service from local or long distance telephone companies so that computers could be plugged into public networks as easily as are telephones today. Implementation is on-going.

ISO 9000: A family of quality standards and guidelines recognized in more than 90 countries and used to establish, measure, manage, and maintain systems that produce products or services of consistently high quality.

LAN: Local Area Network that connects computers together within an office complex. When such connections are distributed over a city or even larger jurisdiction, the LAN becomes a WAN, or Wide Area Network.

MediaPath: A product developed jointly with DEC and based on DEC's Alpha server that combines telephony and computing functions into one integrated computer serving all the needs of a workgroup or small enterprise.

MVIP: Multi-Vendor Integration Protocol. Consists of standard bus, switching and operating systems. Enables applications developers to integrate different PC board telecommunications/voice technologies.

PCM: Pulse-Code Modulation: A means of imposing intelligence on an electrical signal, i.e. digitized analog voice.

Private Branch Exchange (PBX): A "branch" of the telephone company's central office exchange, usually located on the customer's premises, to provide connections between the extension telephones within the business as well as connections to public and private networks outside the business.

Silicon-on-Sapphire: Refers to Silicon being deposited on an insulating substrate, in this case Sapphire, as opposed to a standard Silicon substrate used in most semiconductor processes. Silicon-on-Sapphire processing is used to produce circuits where high radiation tolerance is required, such as Space applications.

SMART-1: Mitel's call controller, used to create equal access in deregulated long distance markets.

SS7: Signalling System # 7: A signalling protocol that allows telephone networks to interact with databases. For example, with SS7, a called party can receive the number and/or the name of the calling party before answering the phone. The network obtains the name and number from a subscriber database.

SuperVisor: A CTI-based call manage-ment system.

SX-200 LIGHT, SX-2000 LIGHT, the LIGHTS, LIGHT series: All refer to the modular, fibre-optic related PBX switching systems in Mitel's product portfolio.

SX-2000 LIGHT: A Mitel PBX system whose functionality and intelligence are distributed among discrete modules that are interconnected by fibre optic cable. The signal in the cable is represented by pulses of light rather than by pulses of electricity.

TAPI: A Windows Telephony Applications Programming Interface designed by Microsoft and Intel to stimulate third-part development of telephony applications that run on Windows-based PCs.

Telephony-Enabled: Telephones, telephone lines and call-switching capability added to a server, equipping it to function both as a computer and a telephone system.

Windows NT Operating System: A Microsoft computer system for particularly demanding environments.

TO BE A WORLD LEADER

CTI LEADER

OUR VISION

Semiconductor

OUR VIS

CLIENT SERVER TELECOM

TELE

Financial Review

VALUE

OUR MISSION:

Financial S

BUSINESS SOLUTIONS

Computer Telephony Integration

PBX MULTIMEDIA

READY

SIMPLY COMMUNICATING

Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

(in millions of Canadian dollars, except per share amounts)

The Company reported Fiscal 1996 net income of $51.0, or $0.45 per share, representing growth of 60 percent over the prior fiscal year when net income was $31.8, or $0.27 per share. A significant growth rate had also been achieved in Fiscal 1995 when net income increased by 54 percent over Fiscal 1994's net income of $20.7, or $0.16 per share. Fiscal 1996 total revenue was $576.4, 2 percent below the total revenue achieved in Fiscal 1995, then a Company record, but 16 percent higher than Fiscal 1994's total revenue. An increasing proportion of higher-margin products in the sales mix, particularly semiconductors, and efforts by management to streamline manufacturing operations and expenses in the distribution channels combined to improve net earnings over the previous two years.

Net income for the three fiscal years ended March 29, 1996, March 31, 1995 and March 25, 1994 as determined by U.S. accounting principles is detailed in Note 18 to the Consolidated Financial Statements.

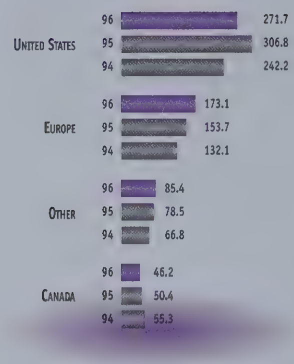
The following discussion and analysis explains trends in the Company's financial condition and results of operations for the year ended March 29, 1996 compared with the two previous years, and is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Certain statements in the Annual Report and in this management discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, demographic changes, import protection and regulation, major technology changes, timing of product introductions, industry competition, industry capacity and other industry trends, and the ability of the Company to attract and retain key employees. The Consolidated Financial Statements, notes to the Consolidated Financial Statements and supplementary information constitute an integral part of and should be read in conjunction with this management discussion and analysis. Readers may wish to make reference to the glossary of terms on page 24 of the Annual Report to assist in their understanding of this discussion.

The Company's fiscal year-end is the last Friday in March. Normally this results in a fifty-two week year with four thirteen week quarters. For Fiscal 1995, the year-end of the Company was March 31, 1995, which resulted in a fifty-three week year with one additional week occurring in the first quarter of that year. Accordingly, part of the change in revenue, associated costs, and expenses may be attributed to one additional week in Fiscal 1995 compared to fiscal years 1996 and 1994.

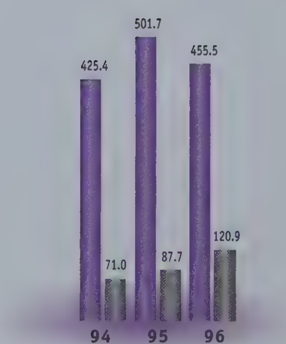
Results of Operations

Mitel's business is global and comprises the design, manufacture and sale of systems, subsystems and microelectronic components to world markets in the telephony, computer telephony integration (CTI) and communications industries. These products and related services include voice communications systems; public switching systems; network enhancement and gateway products; CTI systems and applications; client server telecom products; custom silicon wafers, and integrated and hybrid circuits.

The Company sells its products through both direct and indirect channels of distribution. Factors affecting the choice of distribution, among others, include: end-customer type, the level of product complexity and integration requirements, the stage of product introduction, geographic presence and location of markets, and volume levels.



Revenue based on the geographical location of Mitel's customers
($ millions Cdn)



Revenue by product group
($ millions Cdn)

Business Communications Systems Semiconductors

The net movement in exchange rates from Fiscal 1995 negatively impacted total revenue by 1 percent ($6.9) as a result of changes in the United States dollar and United Kingdom pound sterling exchange rate. Fiscal 1995 revenue was positively impacted by 5 percent ($27.2), when compared with Fiscal 1994, as a result of a strong United States dollar and United Kingdom pound sterling against Canadian currency.

Business Communications Systems

Business Communications Systems (BCS) comprise PBX equipment and peripherals, CTI products and applications, client server telecom products, RADICALL, call controller products, and the GX5000. All of the Company's service revenue relates to business communications systems, primarily PBX. As a percentage of total revenue, BCS accounted for 79 percent in Fiscal 1996, 85 percent in Fiscal 1995 and 86 percent in Fiscal 1994.

Fiscal 1996 BCS revenue, in total, was $455.5, a 9 percent decrease from Fiscal 1995's figure of $501.7. Fiscal 1996 reflected mixed results with highly competitive market conditions having a negative impact on BCS revenue, particularly in North America. The Company, however, made significant progress in Fiscal 1996 in training its PBX sales personnel and distribution channels for the CTI/multimedia product and application migration. European revenue grew on the strength of upgrades and expansion sales to its installed base, call centre application sales, and higher maintenance service revenue. The Asia Pacific region, included in other geographic markets, maintained its revenue base under highly competitive conditions.

Fiscal 1995 BCS revenue grew by 18 percent to $501.7 from Fiscal 1994's revenue of $425.4. Fiscal 1995's strong revenue performance was due to higher levels of PBX installations in the U.S., Europe, and in the Asia Pacific region. In addition, the impact of pending changes to the North American Numbering Plan (NANP), which created a demand to replace older analog PBXs with digital PBXs, and the favourable impact of foreign exchange translation, caused by a weaker Canadian dollar against other major currencies, combined to help fuel revenue growth in Fiscal 1995 over Fiscal 1994.

The North American BCS market, in general, exhibited robust growth during Fiscal 1996 due to the economy's strength, favourable interest rates which stimulated capital spending, the residual effects of changes to the NANP, and higher customer demand for migrating applications to new technology platforms. During Fiscal 1996, the Company furthered its transition strategy of migrating sales efforts on older product lines to new CTI systems and applications. In addition, the Company sold all of its North American non-core PBX and key system base mid-way through Fiscal 1996. The combined factors of a transition year, the non-core base sell-off and a competitive environment caused Mitel's U.S. PBX market share, based on lines shipped to decrease by 1.3 percentage points from

calendar 1994 to 7 percent in calendar 1995 (based on market research published by InfoTech Consulting Inc.). Mitel introduced marketing programs and sales initiatives in the second and third quarters of Fiscal 1996 to meet these competitive challenges. Fourth quarter BCS revenue demonstrated renewed strength in North America where there was a 31 percent increase over the third quarter of Fiscal 1996.

Mitel's revenue growth in Europe over last year was due to a strong demand for PBX upgrades and expansions by Mitel's established customer base and to higher service revenue resulting from a growth in maintenance contracts. During the second quarter of Fiscal 1996, Mitel sold certain maintenance contracts to Bailey Telecom Limited (Bailey) which also helped to increase service revenue over Fiscal 1995. CTI sales were also strong with increased call centre market demand for Mitel SuperVisor, an automatic call distribution application. As a result of selling a portion of the U.K. service base, service revenue, in proportion to total revenue, is expected to be less significant in future years.

Mitel's focus in Asia Pacific was the Company's joint venture in Tianjin, China which was in the early stages of developing its sales channels and upgrading its manufacturing capability. PBX revenue growth was small due to the effects of tight monetary policies in China and intense price competition resulting primarily from the entry of additional competitors in that market.

Sales of CTI products and applications and of client-server telecom products totalled $16.8 in Fiscal 1996, up 56 percent from $10.8 in Fiscal 1995. These sales include the Aventra family of call centre products, CTI@Work personal productivity products and CTI boards and software but exclude the pull-through sales of related switching equipment, voice automation systems and telephones.

Revenue from RADICALL was not significant in proportion to total BCS revenue for fiscal years 1994 through 1996. In Fiscal 1996, most of the sales, marketing, and training activities of the Network Enhancements group were in connection with the roll-out of RADICALL with Pacific Bell in California. In addition, two additional Regional Bell Operating Companies (RBOCs), Southwestern Bell and Bell Atlantic, were signed during the year as distributors of the RADICALL product. The RBOCs and independent telcos that now distribute RADICALL in the U.S. account for over 50 percent of Centrex sales in that country (based on market research published by InfoTech Consulting Inc. and based on calendar 1995). Towards the end of Fiscal 1996, Mercury Communications, one of the largest public network operators in the United Kingdom, was signed as a distributor of RADICALL where they will launch a new "Small Site Centrex" service. In Fiscal 1997, the Network Enhancements group will focus on maximizing revenue through these channels.

During Fiscal 1996, the Company's GX5000 sales increased slightly from the previous year as a result of a successful transition of its primary sales focus from international markets to the U.S. independent telco market.

In call controllers, lower Canadian sales were experienced as a result of regulatory changes which introduced equal access to long distance services on July 1, 1994. Changing competitive conditions in the intraLATA (Local Access and Transport Areas) toll market business in the U.S. also negatively impacted Fiscal 1996 sales of call controllers compared to Fiscal 1995. U.K. call controller sales, however, increased in Fiscal 1996 as a result of deregulated network access services in that market which created a strong demand by alternate carriers for Mitel's call controllers.

Semiconductors

As a percentage of total revenue, semiconductors accounted for 21 percent, 15 percent and 14 percent, respectively, in fiscal years 1996, 1995, and 1994.

Semiconductor revenue showed successive annual growth rates of 24 percent and 38 percent, respectively, in Fiscal 1995 and in Fiscal 1996. The revenue growth was the result of increased demand for the Company's integrated circuits and thick film hybrid products in all regions, particularly the U.S. and Asia. The increase in Mitel's semiconductor business reflects the growth in the semiconductor industry, generally, as high

technology manufacturing continues to expand and fuel economies. Mitel is experiencing the most significant growth supporting customers selling in developing economies where there is a high demand for telecommunications infrastructure. Additionally, Mitel's line of communications components fulfills the needs of manufacturers of advanced voice, data and multimedia equipment in North America, Asia and Europe. Overall, the introduction of new components, including those intended for CTI applications, along with the continuous upgrading of designed-in components led to increased sales volumes in each year.

As of May 9, 1996, the semiconductor plants in Bromont, Kanata and Caldicot, Wales were operating at full capacity with a strong backlog of orders. The Company took major steps in Fiscal 1996 to expand production capacity through both the acquisition of a Swedish semiconductor plant and a major capital program to expand capacity at its fabrication plant in Bromont, Quebec, Canada. Bromont production has already benefited from the additional capital investment with a 40 percent increase in the number of weekly lot starts at the end of the fourth quarter as compared to the beginning of the fourth quarter. These investments and the impact on the Company's financial condition are more fully described in the Liquidity and Capital Resources section of this management discussion and analysis. The newly-acquired company, renamed Mitel Semiconductor AB, had sales of $52.9 in calendar 1995. As Mitel Semiconductor AB was acquired on the last day of Fiscal 1996, the acquisition had no effect on the Company's consolidated results of operations in Fiscal 1996.

Gross Margin

Product gross margin was 51 percent in Fiscal 1996 as against 47 percent in Fiscal 1995 and 45 percent in Fiscal 1994. Service gross margin was 36 percent in Fiscal 1996 compared to 28 percent in Fiscal 1995 and 34 percent in Fiscal 1994. Product gross margins improved each year due to changes in the sales mix with a higher proportion of semiconductors and high value applications. In addition, manufacturing efficiencies were achieved each year on higher semiconductor volumes through the plant. Fiscal 1996 service gross margins improved primarily due to the sale proceeds from certain U.K. maintenance contracts sold to Bailey in the second quarter to help offset the effect of increasingly competitive conditions in that market. All amounts presented for service cost of sales reflect a reclassification of service overhead costs previously included in selling expenses.

Operating Expenses

Selling and Administrative

Selling and administrative (S&A) expenses decreased in Fiscal 1996 to $172.2 from $179.4 in Fiscal 1995. As a percentage of sales, Fiscal 1996 S&A expenses were 30 percent, the same as in Fiscal 1995, but one percentage point higher than in Fiscal 1994.

S&A expenses were lower than in Fiscal 1995 primarily as a result of closing the Italian and German direct PBX sales operations and improved operating efficiencies in the U.S. sales organization. The Italian and German restructuring was initiated in the second quarter of Fiscal 1995 and was substantially completed by the end of that year. During Fiscal 1995, the Italian and German operations incurred $3.4 of S&A expenses in addition to the $5.0 second quarter restructuring charge. Fiscal 1994 S&A expenses for Italy and Germany were $6.3. The program to streamline the U.S. sales operations commenced in the middle of Fiscal 1995, and involved the consolidation of certain administrative functions and the relocation of Mitel's customer care facility to the Company's head office in Kanata, Canada.

In accordance with a research and development (R&D) contract with British Telecommunications plc (BT), the requirement to pay levies on SX2000 product sales expired on March 31, 1995. In Fiscal 1995 and Fiscal 1994, levies of $4.4 and $3.6, respectively, were included in S&A expenses for which there was no corresponding amount in Fiscal 1996.

The benefit of the savings discussed above helped to offset higher costs associated with new marketing initiatives and product launches, and incentives associated with the improved earnings performance in Fiscal 1996.

Research and Development

R&D expenses were $42.7 and 7 percent of revenue for the year ended March 29, 1996. This compares to $41.9 and $34.2, both at 7 percent of revenue, for Fiscal 1995 and Fiscal 1994, respectively. These amounts were exclusive of related R&D capital asset amortization and net of Canadian provincial government R&D incentives earned in each year.

Canadian provincial government R&D incentives earned and included in R&D expenses amounted to $0.3 in Fiscal 1996, $0.6 in Fiscal 1995, and $3.1 in Fiscal 1994. In addition, the Company recorded separately $7.7 of Canadian federal investment tax credits not previously recognized but relating to prior years' R&D.

Mitel's R&D program integrates its support for existing products with development work in emerging technologies including, among others, the following: CTI; multimedia components and applications; networked voice and data; client server telecom; Centrex service enhancements; new ISDN applications; and real-time application specific microelectronic components.

Amortization

Amortization increased in Fiscal 1996 to $19.2 from $16.5 and $17.6 in Fiscal 1995 and Fiscal 1994, respectively. The increase over Fiscal 1995 was due primarily to replacements and upgrades to the Company's semiconductor and other manufacturing plants during the latter part of Fiscal 1995 and throughout Fiscal 1996. The decrease in Fiscal 1995 over Fiscal 1994 was due primarily to certain productive fixed assets becoming fully amortized and to accounting estimate revisions in Fiscal 1994 regarding the useful life of certain manufacturing equipment.

Interest Income and Expense

Interest income, net of interest expense, was $8.3 for Fiscal 1996 compared to $4.5 and $3.1 for Fiscal 1995 and Fiscal 1994, respectively. The increase in interest income resulted from higher average cash balances available for investment and higher interest rates in Fiscal 1996 relative to Fiscal 1995 and Fiscal 1994. Interest expense rose each year due to an increase in the Company's capital leases.

Income taxes

Income tax expense for Fiscal 1996 was $15.0 compared to $1.0 and $4.4 for Fiscal 1995 and Fiscal 1994, respectively. In Fiscal 1996, the Company deferred recognition of certain discretionary tax deductions, increasing tax expense by $7.7 to permit realization of Canadian federal investment tax credits that otherwise would have expired. The balance of the change in each year was due primarily to the earnings change in Mitel's U.K. operations. The Canadian investment tax credits related to prior years' R&D would have expired in Fiscal 1996 had they not been claimed by the Company.

At the end of Fiscal 1996, the Company had tax loss carryforwards of $80.0, investment tax credit carryforwards of $65.0 and timing differences of approximately $47.0. No accounting benefit has been recognized in respect of these carryforwards primarily due to the lack of virtual certainty of realizing the benefits from the operations in which the carryforwards and timing differences arose. Management periodically reviews

the virtual certainty of realizing the carryforward and timing difference benefits in the determination of their accounting recognition. Such review may, in the future, result in the recording of the accounting benefit for these timing differences and investment tax credit carryforwards, as the circumstances warrant, and the recognition of loss carryforwards, as realized.

Other

Management periodically evaluates the financial and operational independence of its foreign operations and the resulting accounting classification of the foreign subsidiaries as self-sustaining enterprises. Should a foreign subsidiary cease to be classified as self-sustaining, then translation gains or losses on consolidating the foreign subsidiary's financial statements would be charged to operating income instead of a separate component of shareholders' equity.

The Company manages foreign currency risk by protecting the estimated future foreign currency cash flows of each operating division, and certain significant transactions from adverse foreign exchange fluctuations. The Company does not engage in a trading or speculative hedging program.

The Company believes that inflation has not had a material impact on revenues and costs during the last three fiscal years.

Backlog

As orders are frequently booked and shipped within the same fiscal month, order backlog is not necessarily indicative of a sales outlook for the month, quarter, or year. This is most true for the Company's business communications systems although manufacturing lead times for semiconductor products are generally longer because of the nature of the production process. At March 29, 1996, order backlog was $138.8 compared to $83.8 at March 31, 1995 and $86.6 at March 25, 1994. The acquisition of Mitel Semiconductor AB at the Company's recent year-end added $42.1 to the Company's total backlog. The balance of the increase was mainly attributable to a strong worldwide demand for the Company's semiconductors offset by lower U.S. business communications systems orders. Most of the backlog is scheduled for delivery in the next twelve months.

Liquidity and Capital Resources

On the last day of Fiscal 1996, the Company acquired a 100 percent interest in ABB Hafo AB, of Jarfälla, Sweden, subsequently renamed Mitel Semiconductor AB, from Asea Brown Boveri. The acquisition price was $44.0 and comprised $24.0 for all of the shares in Hafo and $20.0 for the repayment by Mitel of all bank loans in Hafo. The acquisition was financed in its entirety by the Company's own cash resources. In addition, the Company expects to spend $3.7 over the next twelve months related to acquisition costs and costs to integrate the Hafo operations with Mitel's semiconductor operations, the provision for which was included in the consolidated accounts of the Company as at March 29, 1996.

The Company had cash and short-term investment balances of $137.3 at March 29, 1996 compared to $141.6 at March 31, 1995. The decrease of $4.3 from the end of Fiscal 1995 was due to the year-end acquisition of Mitel Semiconductor AB and capital expenditures, primarily in connection with the semiconductor plant capacity expansion, offset by improved operating results. Cash flow provided by operations amounted to $70.4 during the year ended March 29, 1996. This compares favourably to Fiscal 1995 and Fiscal 1994 when cash provided by operations was $50.9 and $25.6, respectively. Since March 31, 1995, the Company's working capital increased by $1.9 to $210.3 due primarily to the effects of acquiring Mitel Semiconductor AB on the last day of Fiscal 1996 offset by strong cash flows from operations.

Capital asset additions were $34.5 during Fiscal 1996, and were primarily for semiconductor manufacturing capacity enhancements and upgrades to the Company's information technology resources. On February 8, 1996, the Company announced plans to expand and modernize the production capacity of its semiconductor plant in Bromont, Quebec, Canada to meet growing world demand for its integrated circuits. The expansion will be conducted in two phases. The first phase is expected to be completed in the fall of calendar 1996, and will serve to improve the volume capacity and to introduce new 0.8 micron technology. The second phase is expected to be completed in the fall of calendar 1997, and will result in the conversion of its production lines to double the current capacity. The cost of this investment is expected to approximate $10.0 for phase one and $34.0 for phase two.

Total long-term debt increased, net of repayments, by $7.3 from the end of Fiscal 1995. The increase was due to the final advance of $2.2 received under the Ontario Loan Agreement and to capital assets acquired under capital leases in Canada and the U.K. The total advances received under the Ontario Loan Agreement amounted to $20.0 as at March 29, 1996. The agreement provides for specified repayments beginning in March 1998. Repayments were primarily in respect of capital leases, the Canada-Quebec government loan, and an unsecured U.S. note payable. The pension liability of $12.1 relates to the unfunded pension obligation in Mitel Semiconductor AB which was acquired on March 29, 1996. The pension obligation is actuarially determined in accordance with applicable laws and regulations in Sweden, is fully insured by a Swedish regulatory agency and operates on a "pay as you go" basis.

At the end of Fiscal 1996, the Company's capitalization was comprised of 17 percent debt, 10 percent preferred equity, and 73 percent common equity. This compares to the end of Fiscal 1995 when the Company's capitalization profile was 14 percent debt, 13 percent preferred equity, and 73 percent common equity.

In addition to cash and short-term investment balances of $137.3, the Company has unused lines of credit in North America and the U.K. of approximately $31.9. In accordance with Company policy, short-term investment balances are primarily comprised of high-grade money market instruments with original maturity dates of less than one year.

Management believes that the Company is in a position to meet all foreseeable business cash requirements and debt service from its cash balances on hand, existing financing facilities and cash flow from operations.

Management Responsibility for Consolidated Financial Statements

Management of Mitel Corporation is responsible for the integrity of the accompanying Consolidated Financial Statements and all other information in this Annual Report. The Consolidated Financial Statements have been prepared by management in accordance with appropriately selected accounting principles generally accepted in Canada. Their preparation necessarily involves the use of management's best estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through a program of internal audits, careful selection and training of personnel, and the adoption and communication of financial and other relevant policies, including a code of business conduct.

The Board of Directors discharges its responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee which is composed solely of directors who are neither officers nor employees of the Company. This committee meets quarterly with management, the Company's internal auditors, and the Company's independent auditors to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The Consolidated Financial Statements were reviewed by the Audit Committee and approved by the Board of Directors.

The Consolidated Financial Statements have been audited by Ernst & Young, who were appointed by the shareholders at the Annual General Meeting. Their report is presented on the following page.

Dr. John B. Millard
President and
Chief Executive Officer

Jean-Jacques Carrier
Vice President of Finance
and Chief Financial Officer

Auditors' Report

To the Shareholders of Mitel Corporation:

We have audited the consolidated balance sheets of Mitel Corporation as at March 29, 1996 and March 31, 1995 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three year period ended March 29, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 29, 1996 and March 31, 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 29, 1996 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Ottawa, Canada
May 9, 1996

Chartered Accountants

Mitel Corporation
(incorporated under the laws of Canada)

Consolidated Balance Sheets

(in millions of Canadian dollars)

ASSETS	March 29, 1996	March 31, 1995
Current assets:		
Cash and short-term investments at cost, which approximates market	$ 137.3	$ 141.6
Accounts receivable (Notes 3 and 16)	145.7	128.6
Inventories (Note 4)	72.5	72.2
Prepaid expenses	6.7	4.6
	362.2	347.0
Capital assets:		
Fixed assets (Notes 5 and 7)	143.7	82.1
Other assets (Notes 6 and 7)	11.2	11.5
	$ 517.1	$ 440.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 103.6	$ 96.1
Income and other taxes payable	14.9	9.2
Deferred revenue	22.2	24.3
Current portion of long-term debt (Note 7)	11.2	9.0
	151.9	138.6
Long-term debt (Note 7)	39.6	34.5
Pension liability (Notes 15 and 19)	12.1	–
Deferred income taxes	10.7	4.5
	214.3	177.6
Commitments and contingencies (Notes 8 and 9)		
Shareholders' equity:		
Capital stock (Note 10)		
Preferred shares	37.2	38.6
Common shares (1996 - 106,084,494; 1995 - 105,776,618)	150.6	149.7
Contributed surplus (Note 10)	32.3	32.4
Retained earnings	79.4	31.7
Translation account (Note 11)	3.3	10.6
	302.8	263.0
	$ 517.1	$ 440.6

265.6

On behalf of the Board:

Dr. Henry Simon, Director

Dr. John B. Millard, Director

(See accompanying notes to the Consolidated Financial Statements)

Consolidated Statements of Income and Retained Earnings

(in millions of Canadian dollars, except per share amounts)

	March 29, 1996	Years Ended March 31, 1995	March 25, 1994
Revenue:			
Products	$ 504.8	$ 522.3	$ 436.4
Service	71.6	67.1	60.0
	576.4	589.4	496.4
Cost of sales (excluding amortization):			
Products	246.7	275.1	238.6
Service	45.6	48.2	39.8
	292.3	323.3	278.4
Gross margin	284.1	266.1	218.0
Expenses:			
Selling and administrative	172.2	179.4	144.2
Research and development (Note 12)	42.7	41.9	34.2
Investment tax credits related to prior years' research and development (Note 12)	(7.7)	–	–
Amortization	19.2	16.5	17.6
	226.4	237.8	196.0
Operating income	57.7	28.3	22.0
Interest:			
Income	10.0	5.7	4.1
Expense (Note 7)	(1.7)	(1.2)	(1.0)
Income before income taxes	66.0	32.8	25.1
Income tax expense (Note 13)	15.0	1.0	4.4
Net income	51.0	31.8	20.7
Retained earnings (deficit), beginning of year	31.7	3.4	(13.7)
	82.7	35.2	7.0
Dividends on preferred shares	(3.3)	(3.5)	(3.6)
Retained earnings, end of year	$ 79.4	$ 31.7	$ 3.4
Net income attributable to common shareholders after preferred share dividends	$ 47.7	$ 28.3	$ 17.1
Net income per common share (Note 14):	$ 0.45	$ 0.27	$ 0.16

(See accompanying notes to the Consolidated Financial Statements)

Mitel Corporation

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

	Years ended		
	March 29, 1996	March 31, 1995	March 25, 1994
CASH PROVIDED BY (USED IN)			
Operating activities:			
Net income	$ 51.0	$ 31.8	$ 20.7
Amortization	19.2	16.5	17.6
Deferred income taxes	0.1	(0.9)	2.2
Loss on disposal of capital assets	0.2	–	0.1
Decrease (increase) in working capital (Note 18)	(0.1)	3.5	(15.0)
Total	70.4	50.9	25.6
Investing activities:			
Additions to capital assets	(34.5)	(17.2)	(15.9)
Proceeds from disposal of capital assets	0.2	0.5	4.6
Acquisitions (Note 15)	(43.5)	(1.9)	(1.4)
Net change in non-cash balances related to investing activities	1.0	1.4	1.0
Total	(76.8)	(17.2)	(11.7)
Financing activities:			
Increase in long-term debt	18.2	16.9	8.9
Repayment of long-term debt	(10.4)	(5.4)	(4.1)
Repurchase and redemption of preferred shares (Note 10)	(1.5)	(2.3)	(2.0)
Dividends on preferred shares	(3.3)	(3.5)	(3.6)
Issue of common shares (Note 10)	0.9	0.4	1.3
Net change in non-cash balances related to financing activities	–	(0.9)	0.9
Total	3.9	5.2	1.4
Effect of currency translation on cash	(1.8)	1.6	3.0
Increase (decrease) in cash and short-term investments	(4.3)	40.5	18.3
Cash and short-term investments, beginning of year	141.6	101.1	82.8
Cash and short-term investments, end of year	$ 137.3	$ 141.6	$ 101.1

(See accompanying notes to the Consolidated Financial Statements)

Notes to the Consolidated Financial Statements

(in millions of Canadian dollars, except per share amounts)

1. Nature of Operations

Mitel is an international communications products supplier. The Company's principal line of business is the manufacture and distribution of business communications systems and semiconductors, and to a lesser degree, based on revenue, the Company provides support services in respect of products sold. The principal markets for the Company's products are the United States, Europe, Canada and the Asia Pacific region.

2. Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A reconciliation of amounts presented in accordance with United States accounting principles is detailed in Note 18.

The preparation of financial statements in conformity with Canadian and United States accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(A) FISCAL YEAR END

The Company's fiscal year end is the last Friday in March. Normally this results in a fifty-two week year with four thirteen week quarters. For Fiscal 1995, the year end of the Company was March 31, 1995 which resulted in a fifty-three week year.

(B) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiary companies. Investments in associated companies, except for joint ventures, in which the Company has significant influence are accounted for by the equity method. Investments in joint ventures are accounted for by the proportionate consolidation method.

Effective April 1, 1995, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) regarding accounting for investments in joint ventures. In prior years, the Company's investments in joint ventures were accounted for by the equity method as allowed under the previous CICA recommendations. Under the new rules, investments in joint ventures must be accounted for by proportionate consolidation. This change, which was applied retroactively, had no material impact on the consolidated financial position of the Company or the consolidated results of its operations. The change from the equity accounting method to the proportionate consolidation method for joint ventures does not affect the measurement of income or shareholders' equity.

(C) INVENTORIES

Inventories are valued at the lower of average cost and net realizable value for work-in-process and finished goods, and current replacement cost for raw materials. The cost of inventories includes material, labour and manufacturing overhead.

(D) CAPITAL ASSETS

Capital assets are initially recorded at cost, net of related research and development and other government assistance.

Amortization is provided on the bases and at the rates set out below:

Assets	Basis	Rate
Buildings	Straight-line	4 %
Equipment	Declining balance	20 - 30 %
	Straight-line	10 - 33.3%
Patents and trademarks	Straight-line	10 - 33.3%

(E) FOREIGN CURRENCY TRANSLATION

The Company uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiaries. The resulting unrealized gains or losses are deferred and included in shareholders' equity until there is a reduction in the net investment in a foreign operation.

The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve to eighteen months. The Company does not engage in a trading or speculative hedging program. All foreign exchange contracts are marked to market and the resulting gains and losses are deferred and included in the measurement of the related transactions when they occur.

Exchange gains or losses related to translation of, or settlement of, foreign currency denominated long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the item.

(F) REVENUE RECOGNITION

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of communications systems, including integration and installation services, is recognized on a percentage of completion basis. Revenue from service is recognized at the time services are rendered. Billings in advance of services are included in deferred revenue. Estimated warranty costs associated with these revenues are provided for at the time of the sale.

(G) INCOME TAXES

Income taxes are accounted for using the deferred tax allocation method under which the income tax provision is based on the income reported in the accounts. Incentive tax credits are taken into income on the same basis as the related expenditures are charged to income provided the Company expects the credits to be realized.

(H) DEVELOPMENT COSTS

The Company interprets the criteria for deferral of development costs on a very stringent basis under which few, if any, costs qualify for deferment. In the three years ended March 29, 1996, all development costs were expensed as incurred.

3. Accounts Receivable

Included in accounts receivable was an allowance for doubtful accounts of $5.9 (1995 - $7.3).

4. Inventories

	1996	1995
Raw materials	$ 21.9	$ 20.5
Work-in-process	22.6	12.1
Finished goods	28.0	39.6
	$ 72.5	$ 72.2

5. Fixed Assets

	1996	1995
Cost:		
Land	$ 5.4	$ 3.4
Buildings	113.8	96.8
Equipment	185.6	158.8
Equipment under capital leases	45.5	26.5
	350.3	285.5
Less accumulated amortization:		
Buildings	60.7	59.7
Equipment	131.5	133.2
Equipment under capital leases	14.4	10.5
	206.6	203.4
	$ 143.7	$ 82.1

6. Other Assets

	1996	1995
Cost:		
Assets held for resale	$ 7.4	$ 7.6
Patents, trademarks, and other	9.0	8.4
	16.4	16.0
Less accumulated amortization:		
Patents, trademarks, and other	5.2	4.5
	$ 11.2	$ 11.5

Assets held for resale include surplus land in Kanata and a building in Boca Raton vacated as a result of the Company's Fiscal 1991 restructuring program. On December 1, 1993, the Boca Raton facility was leased to a tenant for a term commencing March 1, 1994 and ending November 1, 1998 with an option to purchase the facility on or before March 1, 1997. The carrying value of the Boca Raton facility is expected to be fully recovered from the lease revenue and net proceeds from the potential sale of the facility.

7. Long-term Debt

	1996	1995
Ontario government loan, at a rate of 9.25%, repayable in annual specified incremental amounts commencing March 1998 and due March 2001, and against which a fixed charge on certain fixed assets has been pledged as security	$ 20.0	$ 17.8
Florida industrial revenue and development bonds, at a rate of 8.375%, due in April 2001 and against which certain assets held for resale have been pledged as security (1996 - U.S. $3.1 ; 1995 - U.S. $3.2)	4.2	4.5
Non-interest bearing Canada-Quebec government loan, repayable based on specified cash flows over five years which commenced in March 1996 and against which certain fixed assets have been pledged as security	1.3	3.6
Non-interest bearing unsecured note payable, discounted at a rate of 8.75%, due in equal annual installments of U.S. $1.4 (1996 - U.S. $1.3 ; 1995 - U.S. $2.5)	1.8	3.5
Capital leases and other, at rates varying from 3.4 % to 12.2 %	23.5	14.1
	50.8	43.5
Less current portion	11.2	9.0
	$ 39.6	$ 34.5

During Fiscal 1993, the Company entered into a concessional loan agreement with the Ontario government whereby loan proceeds of up to $20.0 were made available to the Company over a three year period to support product development activities carried out since March 25, 1992. If certain loan conditions are met in each of the four years subsequent to the first advance, which was made on March 26, 1993, then any interest accrued in the first four years on the outstanding principal will be forgiven on an annual basis. The Company believes it is in compliance with the Ontario government loan conditions and has, therefore, not accrued any interest on the loan.

Principal repayments, excluding obligations under capital leases, during the next five fiscal years are: 1997 - $3.3; 1998 - $2.1; 1999 - $4.2; 2000 - $6.2; 2001 - $11.5.

Interest expense related to long-term debt was $1.7 in Fiscal 1996 (1995 - $1.1; 1994 - $1.0).

Future minimum lease payments of the obligations under capital leases total $26.3 of which $9.4, $7.6, $5.1, $2.6, and $1.6 relate to fiscal years 1997 to 2001 respectively. Interest costs of $3.2 are included in the total future lease payments.

The following table presents financial instrument fair value disclosure in accordance with generally accepted accounting principles in the United States, which require fair value disclosure of financial instruments where the carrying value of such is different. Fair value was determined by discounting cash flows of the obligations at 8.0 percent (1995 - 9.75 percent), the rate determined as generally available to the Company on credit facilities at the fiscal year-end:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Ontario government loan	$ 20.0	$ 15.1	$ 17.8	$ 12.1
Florida industrial revenue and development bonds	$ 4.2	$ 4.4	$ 4.5	$ 4.2
Non-interest bearing Canada-Quebec government loan	$ 1.3	$ 1.1	$ 3.6	$ 3.2
Non-interest bearing unsecured note payable	$ 1.8	$ 1.8	$ 3.5	$ 3.5

8. Commitments

(A) OPERATING LEASES

The future minimum lease payments for operating leases for which the Company was committed were as follows: 1997 - $11.6; 1998 - $7.5; 1999 - $4.0; 2000 - $2.1; 2001 - $3.1; 2002 and beyond - $11.6.

(B) LETTERS OF CREDIT

The Company had letters of credit outstanding as at March 29, 1996 of approximately $2.2 to secure accounts payable primarily relating to the purchase of inventory.

(C) CAPITAL EXPENDITURES

Capital expenditure commitments under purchase orders outstanding at the end of Fiscal 1996 amounted to approximately $21.1.

9. Contingencies

The Company is a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of its business. In the opinion of the Company's legal counsel, any monetary liability or financial impact of such lawsuits and claims or potential claims to which the Company might be subject after final adjudication would not be material to the consolidated financial position of the Company or the consolidated results of its operations. (See also Notes 7 and 12.)

10. Capital Stock

The Company's authorized capital stock consists of an unlimited number of preferred and common shares.

Shares outstanding	1996	1995
Preferred Shares - R&D Series	1,618,900	1,680,000
Common Shares	106,084,494	105,776,618

A) PREFERRED SHARES - R&D SERIES

The preferred shares were issued in Fiscal 1984 for gross cash proceeds of $95.2 of which $51.5 ($23.00 per share) was allocated to capital stock with the balance being the consideration received for the sale of tax rights.

Dividends - Fixed cumulative cash dividends are payable quarterly at a rate of $2.00 per share per annum.

Redemption - The shares are currently redeemable, at the option of the Company, at $25.00 per share plus accrued dividends.

Purchase Obligation - Commencing January 1, 1989, the Company was required to make reasonable efforts to purchase 22,400 shares in each calendar quarter at a price not exceeding $25.00 per share plus costs of purchase, and this obligation has been met. The difference between the stated capital of the repurchased shares over the consideration paid for such shares is recorded against contributed surplus.

(B) COMMON SHARES

An analysis of the changes in the number of common shares and the amount of share capital for the three years ended March 29, 1996 is as follows:

	Number	Amount
Balance, March 26, 1993	104,477,769	$ 148.0
Issued for cash -		
Employee stock option plans	1,038,375	1.3
Balance, March 25, 1994	105,516,144	149.3
Employee stock option plans	260,474	0.4
Balance, March 31, 1995	105,776,618	149.7
Employee stock option plans	307,876	0.9
Balance March 29, 1996	106,084,494	$ 150.6

(C) DIVIDEND RESTRICTIONS ON COMMON SHARES

The Company may not declare cash dividends on its common shares unless dividends on the preferred shares have been declared and paid, or set aside for payment, or without the prior written consent of the Ontario government in connection with the provincial loan agreement described in Note 7.

(D) STOCK OPTION PLANS AND WARRANTS

	Number of Common Shares	
	1996	1995
i) Stock Option Plans:		
Outstanding options		
Balance, beginning of year	2,721,551	2,129,375
Options granted	610,500	961,000
Options exercised	(307,876)	(260,474)
Options cancelled	(121,650)	(108,350)
Balance, end of year	2,902,525	2,721,551

At the Company's 1991 Annual General Meeting, the shareholders approved resolutions authorizing stock options for key employees and non-employee directors. Available for grant at March 29, 1996 were 1,779,775 (1995 - 268,625; 1994 - 1,121,275) shares. Certain amendments to the plan were approved by the shareholders at the 1993 and 1995 Annual General Meetings allowing for 1,000,000 and 2,000,000 additional shares, respectively, to be made available for grant. The aggregate amount which would be received on the exercise of all outstanding options is $13.2 (1995 - $10.2; 1994 - $5.8) with options ranging from $1.10 to $8.85 per share and exercise periods extending to March, 2006.

ii) Warrants

The warrants are for the purchase of 1,000,000 common shares, exercisable at any time on or prior to July 22, 1996 at an exercise price of U.S. $1.25 per share. On April 18, 1996, all of the warrants were exercised for cash consideration of $1.7.

11. Translation Account

The following table summarizes changes in the translation account:

	1996	1995	1994
Balance, beginning of year	$ 10.6	$ 5.7	$ (5.3)
Increase (decrease):			
Movements in exchange rates -			
United States dollar	(1.4)	0.7	3.4
United Kingdom pound sterling	(6.0)	5.9	7.1
Other currencies	0.1	–	0.5
Reduction of net investments in subsidiaries	–	(1.7)	–
Balance, end of year	$ 3.3	$ 10.6	$ 5.7

12. Government Assistance and Investment Tax Credits

During the year, the Company recognized total funding of $0.3 (1995 - $0.6; 1994 - $3.1) related to eligible R&D expenditures (1996 - $1.0; 1995 - $2.9; 1994 - $13.3) which was recorded as a reduction primarily of research and development expenses in the consolidated statements of income. Included in the funding recognized during Fiscal 1996 were amounts from programs or incentives such as Canada-Israel Industrial Research and Development Foundation, Canadian Network for Advancement of Research, Industry and Education Inc. (CANARIE), and Canadian provincial investment tax credits related to the current year's R&D expenses.

During the year, the Company also recognized Canadian federal investment tax credits of $7.7 related to prior years' R&D expenses for which no accounting benefit was previously recognized. (See also Note 13.)

Contributions of $5.0 made to the Company in prior years under the Microelectronics and System Development Program, a federal assistance program, are contingently repayable if the resulting technology is commercially successful. The contributions are repayable based on a percentage of related sales over a period not to exceed ten years. Any amount unpaid at the end of the ten year period would be forgiven. As the technology has just begun to be commercially exploited, the total amounts repaid and repayable to March 29, 1996 were negligible.

The Canada-Quebec Subsidiary Agreement contains contingency clauses which would require repayment of funding from prior years ($2.9) if certain conditions are not met. The Company believes that it is in compliance with these conditions.

13. Income Taxes

Details of income tax expense (recovery) were as follows:

	1996	1995	1994
Current			
Canadian	$ 9.3	$ 1.0	$ 0.2
Foreign	5.6	0.9	2.0
Deferred			
Foreign	0.1	(0.9)	2.2
	$ 15.0	$ 1.0	$ 4.4

Deferred taxes on income generally result from timing differences primarily in the recognition of amortization and research and development expenditures for tax and financial reporting purposes.

The income tax expense reported differs from the amount computed by applying the Canadian rates to the income before income taxes. The reasons for these differences and their tax effects were as follows:

	1996	1995	1994
Expected tax rate	40%	40%	40%
Expected tax expense	$ 26.4	$ 13.1	$ 10.1
Foreign tax rate differences	(0.8)	(0.1)	(1.2)
Tax effect of losses not recognized	2.5	3.3	4.1
Tax effect of realizing benefit of prior years' operating loss carryforwards	(15.7)	(17.3)	(9.6)
Corporate minimum taxes	2.4	1.5	0.8
Other	0.2	0.5	0.2
Income tax expense	$ 15.0	$ 1.0	$ 4.4

Unremitted earnings of subsidiaries subject to witholding taxes will be indefinitely reinvested with no provision necessary for potential withholding taxes on repatriation of subsidiary earnings. The income (loss) before income taxes attributable to all foreign operations was $15.7 (1995 - $(2.9); 1994 - $7.8).

As at March 29, 1996, the Company had tax loss carryforwards of approximately $80.0 for which no accounting benefit was recognized and which are available to reduce future years' income for tax purposes. These tax loss carryforwards expire as follows: 2002 - $8.1 ; 2003 - $15.9 ; 2004 - $6.8 ; 2005 to 2008 - $49.2. The tax loss carryforwards relate to operations in the United States, Germany and Hong Kong. As at March 29, 1996, the Company had Canadian investment tax credit carryforwards of approximately $65.0 for which no accounting benefit was recognized and which are available to reduce future years' income taxes. These investment tax credits expire during the years from 1997 to 2007. In addition, the Company had timing differences of approximately $47.0 for which no accounting benefit was recognized.

14. Net Income Per Common Share

The net income per common share figures were calculated based on net income after the deduction of preferred share dividends and using the weighted monthly average number of shares outstanding during the respective fiscal years (105,920,369 shares in 1996; 105,622,984 shares in 1995; and 105,123,025 shares in 1994).

15. Acquisitions

(A) On March 29, 1996, the Company acquired ABB Hafo AB (subsequently renamed Mitel Semiconductor AB), a designer, manufacturer and marketer of custom and application specific integrated circuits and semiconductor components with operations based in Sweden and the United States. Mitel Semiconductor AB was acquired for cash consideration of $44.0, comprised of $24.0 for 100 percent of the outstanding common shares and $20.0 for the repayment of all bank loans in the acquired company. As part of this transaction, the Company assumed pension obligations of $12.1 (59.4 SEK) in Mitel Semiconductor AB and which have been consolidated in these financial statements as at March 29, 1996. In addition, the Company recorded a liability of $1.7 in respect of acquisition costs and recorded a provision of $2.0 in respect of estimated costs to integrate the operations of the acquired company with the Semiconductor Division over the next twelve months.

This acquisition was accounted for by application of the purchase method under which the results of operations are included in the Company's accounts from the date of acquisition. Accordingly, the consolidation of Mitel Semiconductor AB in the Company's accounts had no effect on the results of operations for the year ended March 29, 1996.

The purchase transaction is summarized as follows:

Net assets acquired, at approximate fair value:

Current assets	$ 28.0
Capital assets	48.2
Total assets	76.2
Current liabilities	13.9
Pension liability	12.1
Deferred income taxes	6.2
Total liabilities	32.2
Total net assets	$ 44.0
Cash consideration	$ 44.0

Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of Fiscal 1996 is presented as follows:

	Mitel Corporation	Mitel Semiconductor AB	Pro Forma Adjustments	Pro Forma Combined
Revenue:				
Products	$ 504.8	$ 52.9	$ –	$ 557.7
Service	71.6	–	–	71.6
	576.4	52.9	–	629.3
Cost of sales (excluding amortization):				
Products	246.7	25.7	–	272.4
Service	45.6	–	–	45.6
	292.3	25.7	–	318.0
Gross margin	284.1	27.2	–	311.3
Expenses:				
Selling and administrative	172.2	9.1	–	181.3
Research and development	42.7	13.2	–	55.9
Investment tax credits related to prior years' research and development	(7.7)	–	–	(7.7)
Amortization	19.2	7.2	1.8	28.2
	226.4	29.5	1.8	257.7
Operating income (loss)	57.7	(2.3)	(1.8)	53.6
Interest income (expense) - net	8.3	(2.0)	(2.4)	3.9
Income (loss) before income taxes	66.0	(4.3)	(4.2)	57.5
Income tax recovery (expense)	(15.0)	0.9	(0.9)	(15.0)
Net income (loss)	$ 51.0	$ (3.4)	$ (5.1)	$ 42.5
Net income (loss) per common share	$ 0.45	$ (0.03)	$ (0.05)	$ 0.37

The Pro Forma adjustments are in respect of amortizing the fair value adjustments to capital assets, the foregone interest income on the acquisition cash proceeds at an interest rate of 5.0 percent, and the reversal of deferred tax debits booked by the acquired company.

(B) On April 12, 1994, the Company completed the acquisition of its 50 percent investment in Tianchi-Mitel Telecommunications Corporation (Tianchi-Mitel), a telecommunications manufacturing, sales and service joint venture in Tianjin, China, for a total cash investment of $3.3. The acquisition was accounted for by the purchase method. Accordingly, the Company's share in the joint venture's results from operations were included in the consolidated financial statements of the Company from the date of acquisition, April 12, 1994.

The Company's share of the assets, liabilities, revenue, expense and cash flows of Tianchi-Mitel, which was proportionately consolidated in these financial statements, was as follows:

	1996	1995
Assets		
Current assets	$ 2.9	$ 3.2
Long-term assets	$ 1.7	$ 1.9
Liabilities		
Current liabilities	$ 1.0	$ 1.0
Revenue	$ 4.0	$ 3.2
Cost of sales and expenses	$ 4.2	$ 3.1
Net income (loss)	$ (0.2)	$ 0.1
Cash flows		
Cash provided by (used in) operating activities	$ (0.3)	$ 0.5
Cash provided by (used in) financing activities	$ (0.1)	$ –
Cash provided by (used in) investing activities	$ –	$ (0.2)

16. Related Party Transactions

(A) During the year ended March 29, 1996, the Company sold to jointly controlled and significantly influenced enterprises product and services valued at approximately $7.9 (1995 - $7.1; 1994 - $1.1). During Fiscal 1996, the Company purchased product valued at $nil (1995 - $nil; 1994 - $2.9) from jointly controlled and significantly influenced enterprises.

Included in accounts receivable as at March 29, 1996 were amounts due from jointly controlled and significantly influenced enterprises of $1.5 (1995 - $1.3; 1994 - $nil).

(B) During Fiscal 1996, four funds advised by Schroder Ventures reduced their blocks of share ownership in the Company, in aggregate, from approximately 22 percent at the beginning of the year to less than 5 percent. Included in accounts receivable as at March 29, 1996 were amounts due from these funds of $nil (1995 - $nil; 1994 - $0.1). Schroder Ventures is an international venture capital and buy-out affiliate of Schroder plc, an international merchant banking group listed on The Stock Exchange, London.

17. Information on Geographic Segments

The Company operates primarily as a vertically integrated manufacturer of communications products which is its principal line of business. Included in total revenue for Canada were export sales amounting to $197.7 in Fiscal 1996 (1995 - $178.7; 1994 - $136.2). The point of origin (the location of the selling organization) of revenue and the location of the assets determine the geographic areas.

	1996	1995	1994
Revenue:			
Canada			
External customers	$ 98.6	$ 91.5	$ 90.8
Transfers between geographic areas	145.3	137.6	100.5
	243.9	229.1	191.3
United States			
External customers	271.5	309.5	245.1
Transfers between geographic areas	14.1	15.8	20.7
	285.6	325.3	265.8
Europe			
External customers	183.3	164.5	142.9
Transfers between geographic areas	19.2	20.4	17.1
	202.5	184.9	160.0
Other			
External customers	23.0	23.9	17.6
Transfers between geographic areas	–	–	–
	23.0	23.9	17.6
Eliminations of transfers between geographic areas	(178.6)	(173.8)	(138.3)
Total revenue	$ 576.4	$ 589.4	$ 496.4
Operating income:			
Canada	$ 58.8	$ 49.9	$ 28.0
United States	37.8	47.7	40.4
Europe	35.0	12.0	16.7
Other	3.2	4.6	3.1
Eliminations	(5.0)	(9.3)	0.4
Segment operating income	129.8	104.9	88.6
Corporate expenses	72.1	76.6	66.6
Operating income	57.7	28.3	22.0
Interest income, net of interest expense	8.3	4.5	3.1
Income tax expense	(15.0)	(1.0)	(4.4)
Net income	$ 51.0	$ 31.8	$ 20.7
Capital asset additions:			
Canada	$ 26.9	$ 12.1	$ 8.8
United States	2.3	1.7	1.7
Europe	4.4	3.4	5.3
Other	0.9	–	0.1
Capital asset additions	$ 34.5	$ 17.2	$ 15.9

	1996	1995	1994
Amortization expense:			
Canada	$ 13.4	$ 11.0	$ 11.6
United States	1.6	1.3	2.3
Europe	4.1	4.1	3.7
Other	0.1	0.1	–
Amortization expense	$ 19.2	$ 16.5	$ 17.6

Identifiable assets:			
Canada	$ 136.5	$ 115.2	$ 122.3
United States	82.8	92.1	78.1
Europe	198.1	112.9	103.7
Other	11.5	14.0	7.2
Identifiable assets	428.9	334.2	311.3
Corporate assets	88.2	106.4	65.1
Total assets	$ 517.1	$ 440.6	$ 376.4

In line with industry practice, corporate expenses include research and development, scientific research agreement revenue, and general administration expenses. Interest and income taxes are excluded from the calculation of segment operating income.

Transfers between areas are made at prices based on the total cost of the product to the selling location.

18. United States Accounting Principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in the case of the Company, conform in all material respects with those in the United States (U.S. GAAP) and with the requirements of the Securities and Exchange Commission (SEC), except as follows:

(A) Under the terms of an R&D contract with British Telecommunications plc (BT), the Company was required to pay BT levies based on defined incremental sales of SX-2000 products. These levies were payable until the earlier of March 31, 1995 or until the amounts paid to BT reached a specified maximum.

158

Under Canadian GAAP, amounts earned for work performed under the R&D contract with BT were offset against the related costs incurred. Amounts earned for work performed pursuant to such contracts among parties who were related at the time the arrangement was entered into were accounted for as a liability under interpretation of U.S. GAAP by the staff of the SEC. Although BT ceased to be related to the Company on June 12, 1992, the R&D contract with BT was entered into while BT was the majority owner of the Company.

Under Canadian GAAP, levies payable to BT pursuant to the contract terms were accounted for as an expense. They were accounted for as a payment against the liability under interpretations of U.S. GAAP by the staff of the SEC.

On March 31, 1995, the requirement to pay levies to BT expired pursuant to the terms of the contract. Accordingly, the remaining unpaid amount in respect of the R&D contract of $23.7 as at March 31, 1995 was accounted for as an extinguishment of debt and recognized in income under U.S. GAAP for the year ended March 31, 1995.

(B) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency transactions identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(C) Under Canadian GAAP, investments in joint ventures are recognized in the financial statements of the venturer by applying the proportionate consolidation method of accounting. Under U.S. GAAP, equity accounting is applied to investments in joint ventures when preparing the consolidated financial statements of the venturer.

(D) Under Canadian GAAP, stock issue costs are shown as an adjustment to retained earnings. The carrying amount of capital stock is shown net of issue costs under U.S. GAAP.

(E) Redeemable preferred shares are excluded from shareholders' equity under requirements of the SEC.

(F) Reductions in stated capital and deficit are not recorded under U.S. GAAP. The Company had previously undertaken stated capital and deficit reductions in fiscal years 1985, 1986, 1987 and 1992.

(G) Under U.S. GAAP, primary and fully diluted earnings per share are computed in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents.

(H) Under Canadian GAAP, for purposes of the statements of cash flows, cash position includes all short-term investments. Under U.S. GAAP, cash position includes highly liquid investments with original maturities of less than three months. In addition, under U.S. GAAP, non-cash items such as assets acquired under capital lease are excluded from the statements of cash flows. Under Canadian GAAP, the gross amount of non-cash items are included in the respective operating, investing, or financing activities as applicable.

(I) The Company implemented SFAS 109, Accounting for Income Taxes, in Fiscal 1994 for purposes of reconciliation to U.S. GAAP. As at March 29, 1996, the Company's deferred tax asset, primarily related to the benefit of realizing investment tax credit and loss carryforwards and timing differences, net of a valuation allowance of \$135.3 (1995 - \$146.0), was \$nil (1995 - \$nil), and deferred tax liabilities, primarily related to buildings and equipment, were \$10.7 (1995 - \$4.5).

(J) Management has examined the rules applicable to SFAS 119 regarding the disclosure of derivative financial instruments and the fair value of financial instruments and has provided the required disclosure in notes 7, 8, 19, 20, and 21.

(K) The United States Financial Accounting Standards Board has issued a new standard (SFAS 121) for accounting for the impairment of long lived assets and for assets to be disposed of. SFAS 121 becomes effective for fiscal years beginning after December 15, 1995. Management has determined that there will be no impact on the U.S. GAAP financial information of the Company.

(L) The United States Financial Accounting Standards Board has issued a new standard (SFAS 123) for accounting for stock based compensation. SFAS 123 disclosure requirements become effective for fiscal years beginning after December 15, 1995. Management has determined that it will continue to apply Accounting Principles Board Opinion No. 25 in its reconciliation to U.S. GAAP and will provide pro-forma net income and earnings per share information according to the new measurement provisions in Fiscal 1997. Accordingly, there will be no impact on the U.S. GAAP financial information of the Company.

The following table reconciles the net income as reported on the consolidated statements of income to the net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP and the requirements of the SEC. The proportionate consolidation method for joint ventures does not affect the measurement of income or shareholders' equity and therefore is not addressed in the following table:

	1996	1995	1994
Net income in accordance with Canadian GAAP	$ 51.0	$ 31.8	$ 20.7
Effect of research and development contract	–	4.4	3.6
Income recognized under research and development contract (See Part A)	–	23.7	–
Effect of deferral accounting related to foreign exchange contracts	5.9	(0.9)	(5.9)
U.S. GAAP and SEC requirements:			
Net income	$ 56.9	$ 59.0	$ 18.4
Net income for the year attributable to common shareholders after preferred share dividends	$ 53.6	$ 55.5	$ 14.8
Net income per common share	$ 0.50	$ 0.52	$ 0.14

The weighted average number of common share and common share equivalents outstanding pursuant to U.S. GAAP in Fiscal 1996 was 107,883,043 (1995 - 107,221,144; 1994 - 107,189,536).

	1996	1995	1994
Cash flow information presented in conformity in all material respects with U.S. GAAP:			
Cash provided by (used in)			
Operating activities - Canadian GAAP	$ 70.4	$ 50.9	$ 25.6
Change in cash pledged to cover letters of credit	–	–	3.8
Operating activities - U.S. GAAP	70.4	50.9	29.4
Investing activities - Canadian GAAP	(76.8)	(17.2)	(11.7)
Change in short-term investments	(6.3)	(39.6)	(38.5)
Additions to capital assets under capital lease	16.3	6.6	4.3
Investing activities - U.S. GAAP	(66.8)	(50.2)	(45.9)
Financing activities - Canadian GAAP	3.9	5.2	1.4
Increase in capital leases	(16.3)	(6.6)	(4.3)
Financing activities - U.S. GAAP	(12.4)	(1.4)	(2.9)
Decrease in cash	(8.8)	(0.7)	(19.4)
Effect of currency translation on cash flows	(1.8)	1.6	3.0
Cash position, beginning of year	63.0	62.1	78.5
Cash position, end of year	$ 52.4	$ 63.0	$ 62.1

Net change in non-cash working capital balances related to operating activities:

Accounts receivable	$ (7.0)	$ (21.3)	$ (9.0)
Inventories	9.0	9.8	(13.2)
Accounts payable and accrued liabilities	1.4	6.2	10.0
Deferred revenue	(0.7)	10.2	1.3
Other	(2.8)	(1.4)	(4.1)
	$ (0.1)	$ 3.5	$ (15.0)

		1996	1995
Balance sheet items in conformity in all material respects with U.S. GAAP and SEC requirements:			
Cash	137.3	$ 52.4	$ 63.0
Short-term investments		84.9 } 137.3	78.6
Accounts payable and accrued liabilities	3.2 103.6	~~100.4~~	98.7
Redeemable preferred shares		~~34.4~~	35.8
Common shares		596.5	595.6
Contributed surplus		2.5	2.6
Deficit	268.3	(330.7)	(384.3)

19. Pension Plans

The Company operates several contribution-based plans and two defined benefit pension plans for its employees.

The first defined benefit plan covers substantially all employees in the United Kingdom and provides pension benefits based on length of service and final pensionable earnings. Actuarial reports in connection with the U.K defined benefit plan, prepared in April 1995 and updated to March 31, 1996, were based on projections of employees' compensation levels to the time of retirement. These actuarial reports indicate that the actuarial present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, were as follows:

	1996	1995
Pension fund assets	$ 39.3	$ 37.1
Accrued pension benefits	$ 33.0	$ 30.4

The second defined benefit plan covers all employees in Sweden and provides pension benefits based on length of service and pensionable earnings. There is no pension fund under the plan. The associated pension liability is calculated each year by the Pension Registration Institute (PRI) and is credit insured in its entirety by Forsakringsbolaget Pensionsagaranti (FPG). The pension liability was actuarially determined based on the present value of the accrued future pension benefits and in accordance with applicable laws and regulations in Sweden. The pension liability of $12.1 (59.4 SEK) was recorded in the Company's consolidated financial statements as at March 29, 1996. (See also Note 15.)

20. Foreign Exchange Contracts

At March 29, 1996, foreign currency exchange contracts to sell $85.0 in foreign currency (60.0 U.S. dollars) had a market value of $88.0. This market value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows.

21. Unused Bank Lines of Credit

At March 29, 1996, the Company had unused and available demand bank lines of credit amounting to approximately $31.9 (1995 - $34.5) at rates of interest based on the U.S. prime, Canadian prime, and U.K. base rate.

22. Comparative Figures

Certain of the 1995 and 1994 comparative figures have been reclassified so as to confirm to the presentation adopted in 1996.

Selected Financial Data

(in millions of Canadian dollars, except per share amounts)

The following table is derived from the Consolidated Financial Statements included elsewhere herein, which have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These principles also conform, in all material respects, with accounting principles generally accepted in the United States (U.S. GAAP), and the requirements of the SEC, except as more fully described in Note 18 to the Consolidated Financial Statements.

	Fiscal Year Ended (at the end of fiscal year for balance sheet data)				
CANADIAN GAAP	1996	1995	1994	1993	1992
Income Statement Data:					
Revenue	$ 576.4	$ 589.4	$ 496.4	$ 423.4	$ 406.1
Gross research and development expense	46.5	44.9	37.1	39.2	46.5
Net income (loss)	51.0	31.8	20.7	2.6	(5.7)
Net income (loss) per common share	0.45	0.27	0.16	(0.01)	(0.12)
Balance Sheet Data:					
Working capital	$ 210.3	$ 208.4	$ 174.2	$ 139.4	$ 76.8
Total assets	517.1	440.6	376.4	323.4	308.0
Current portion of long-term debt	11.2	9.0	3.9	2.8	2.7
Long-term debt	39.6	34.5	27.8	23.2	13.4
Pension liability	12.1	–	–	–	–
Shareholders' equity (including redeemable preferred shares)	302.8	263.0	231.7	204.3	163.6
U.S. GAAP AND SEC REQUIREMENTS					
Income Statement Data:					
Net income (loss)	$ 56.9	$ 59.0	$ 18.4	$ 9.6	$ (7.1)
Net income (loss) per common share	0.50	0.52	0.14	0.07	(0.14)
Balance Sheet Data:					
Working capital	$ 213.5	$ 205.8	$ 172.4	$ 143.5	$ 76.8
Total assets	517.1	440.6	376.4	323.4	308.0
Current portion of long-term debt	11.2	9.0	3.9	2.8	2.7
Long-term debt	39.6	34.5	27.8	23.2	13.4
Long-term obligation under research and development contract	–	–	28.1	31.7	34.6
Pension liability	12.1	–	–	–	–
Redeemable preferred shares	34.4	35.8	37.8	39.8	41.5
Shareholders' equity					
Common shares	596.5	595.6	595.2	593.9	544.7
Contributed surplus	2.5	2.6	2.7	2.7	2.2
Deficit	(330.7)	(384.3)	(439.6)	(454.5)	(459.9)
Translation	3.3	10.6	5.7	(5.3)	0.5

Supplementary Financial Information

(in millions of Canadian dollars, except per share amounts)

(Unaudited)

Selected Quarterly Financial Data

(in accordance with Canadian generally accepted accounting principles)

FISCAL 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	$ 136.2	$ 149.5	$ 125.7	$ 165.0	$ 576.4
Gross margin	$ 63.8	$ 73.4	$ 64.6	$ 82.3	$ 284.1
Gross margin percentage	47%	49%	51%	50%	49%
Net income	$ 9.6	$ 15.0	$ 11.2	$ 15.2	$ 51.0
Net income per common share	$ 0.08	$ 0.13	$ 0.10	$ 0.14	$ 0.45

As disclosed in Note 2(A) to the Consolidated Financial Statements, the first quarter of Fiscal 1995 had one additional week.

FISCAL 1995					
Revenue	$ 130.9	$ 144.0	$ 150.0	$ 164.5	$ 589.4
Gross margin	$ 58.4	$ 63.2	$ 66.7	$ 77.8	$ 266.1
Gross margin percentage	45%	44%	44%	47%	45%
Net income	$ 4.0	$ 2.9	$ 10.5	$ 14.4	$ 31.8
Net income per common share	$ 0.03	$ 0.02	$ 0.09	$ 0.13	$ 0.27

Exchange Rates of the Canadian Dollar

The high and low exchange rates (i.e. the highest and lowest rates at which Canadian dollars were sold), the average exchange rate (i.e. the average of the exchange rates on the last day of each month during the period) and the period end exchange rates of the Canadian dollar in exchange for U.S. currency for each of the five years ended December 31, 1995 and for the period January 1, 1996 through May 9, 1996, as reported by the Federal Reserve Bank of New York, were as follows:

	January 1 to May 9,	U.S. Dollars				
	1996	1995	1994	1993	1992	1991
High	$ 0.7391	0.7527	0.7632	0.8046	0.8757	0.8926
Low	0.7235	0.7023	0.7103	0.7438	0.7761	0.8587
Average	0.7309	0.7307	0.7300	0.7734	0.8242	0.8726
Period End	0.7315	0.7323	0.7128	0.7544	0.7865	0.8652

Common Share Information

Principal Markets

The Toronto Stock Exchange and the New York Stock Exchange are the principal markets on which the Company's shares are traded. The shares are also listed on the Montreal and London Stock Exchanges. The Company's shares were first listed on the Toronto Stock Exchange on August 13, 1979 and on the New York Stock Exchange on May 18, 1981. The stock symbol of the Company's shares is MLT. The following table sets forth the high and low sales prices for the common shares for each quarter of the last two fiscal years.

THE TORONTO STOCK EXCHANGE

(Canadian Dollars)

	1996		1995	
	High	Low	High	Low
1st Quarter	$ 7.500	$ 6.125	$ 6.750	$ 4.000
2nd Quarter	8.375	6.625	5.500	4.100
3rd Quarter	9.500	6.625	5.375	4.400
4th Quarter	9.000	7.125	7.125	4.900

NEW YORK STOCK EXCHANGE

(U.S. Dollars)

	1996		1995	
	High	Low	High	Low
1st Quarter	$ 5.500	$ 4.500	$ 4.875	$ 2.875
2nd Quarter	6.125	4.875	4.000	2.875
3rd Quarter	6.875	4.875	4.000	3.125
4th Quarter	6.625	5.125	5.125	3.500

Shareholders

As at May 9, 1996 there were 6,329 common shareholders of record.

Dividend Policy

The Company has not declared or paid any dividends on its common shares and the Board of Directors anticipates that, with the exception of preferred share dividend requirements, all available funds will be applied in the foreseeable future to finance growth, and to improve the Company's competitive position and profitability.

Pursuant to the terms of the $2.00 Cumulative Redeemable Convertible Preferred Shares, 1983 R&D Series (Preferred Shares - R&D Series), the Company will not be permitted to pay any dividends on common shares unless all dividends accrued on the preferred shares have been declared and paid or set apart for payment.

Pursuant to the terms of the Ontario product development loan agreement dated December 18, 1992, the Company will not be permitted to pay any dividends on common shares without the prior written approval of the Ontario government.

Dividends paid by the Company to common shareholders not resident in Canada would generally be subject to Canadian withholding tax at the rate of 25 percent or such lower rate as may be provided under applicable tax treaties. Under the Canada - United States tax treaty, the rate of withholding tax applicable to such dividends paid to residents of the United States would generally be 15 percent.

Directors, Committees, Officers, Vice Presidents and General Managers

Board of Directors

Dr. Henry Simon
Chairman of the Board
Chairman, Schroder Ventures Life Sciences Advisers

Hubert T. Lacroix
Partner, McCarthy Tétrault
Barristers & Solicitors

Paul G. Vien
President, St. James Financial Corporation Inc.

Dr. John B. Millard
President and Chief Executive Officer

Donald W. Paterson
President
Cavandale Corporation

Jonathan I. Wener
Chairman, Canderel Holdings Ltd.

Anthony L. Craig
President and Chief Executive Officer, Global Knowledge Network Inc.

Peter van Cuylenburg
Independent Consultant to Xerox Corporation

Sitting (left to right): Dr. Henry Simon, Dr. John B. Millard. *Standing (left to right):* Jonathan I. Wener, Paul G. Vien, Peter van Cuylenburg, Donald W. Paterson, Hubert T. Lacroix, Anthony L. Craig

Corporate Governance

Mitel believes that it is in substantial compliance with the guidelines on improved corporate governance issued by the Toronto and Montreal stock exchanges in 1995.

Shareholders will find a detailed description of corporate governance in the Company's Management Proxy Circular.

Members of Board Committees

AUDIT
Hubert T. Lacroix
Chairman

Jonathan I. Wener

Paul G. Vien

NOMINATING
Dr. Henry Simon
Chairman

Hubert T. Lacroix

Dr. John B. Millard

COMPENSATION
Jonathan T. Wener
Chairman

Dr. John B. Millard

Dr. Henry Simon

Officers

Jean-Jacques Carrier
Vice President of Finance and Chief Financial Officer

Dr. John B. Millard
President and Chief Executive Officer

Donald G. McIntyre
Vice President, Human Resources
General Counsel and Secretary

Dr. A.R. Ian Munns
Senior Vice President,
Marketing and Technology

Shirley J. Mears
Vice President, Treasurer

Vice Presidents and General Managers

Kenneth B. Anderson
Vice President,
Information Systems

Carl Carruthers
Vice President,
Manufacturing and Logistics

Alan Kirkham
Vice President,
Sales and Service,
Europe, Middle East and Africa

Gregory M.E. Spierkel
Vice President,
Sales and Service, North America

E. Terrell (Terry) Atwood
Vice President,
Network Enhancement Products

Robert J. Dietrich
Vice President,
Corporate and Government Affairs

Kirk K. Mandy
Vice President and General Manager,
Semiconductor Division

Kan Tung
General Manager,
Sales and Service, Asia Pacific

Dr. Peter K. Bohacek
Vice President and General Manager,
Client Server Telecom Division

Ronald A. Evans
Vice President,
Strategic Business and Technology Development

Geoffrey A. Smith
Vice President,
CTI Products

Members of Executive Management Committee

Jean-Jacques Carrier
Kirk K. Mandy

Donald G. McIntyre
Dr. John B. Millard

Dr. A.R. Ian Munns

Subsidiary and Principal Invesments

Wholly-owned Subsidiaries

Mitel, Inc.
U.S.A.

Mitel Telecommunications Systems, Inc.
U.S.A.

Mitel Telecom Limited
United Kingdom

Mitel (Far East) Limited
Hong Kong

Mitel Semiconductor AB
Sweden

Principal Investments

Mitel de Mexico S.A. de C.V.
Mexico
(49%)

Tianchi-Mitel Telecommunications Corporation
China
(50%)

Investor Information

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m., Thursday, July 25th, 1996 in the Corporation's head office facility located at 350 Legget Drive, Kanata, Ontario, Canada.

Annual Report on Form 10-K
Shareholder Inquiries

Shareholders and other individuals requesting information about Mitel or wishing to receive, free of charge, copies of the Annual and Quarterly Reports, including the Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission and Canadian Regulatory Authorities, should call or write to:

Public and Investor Relations Department
Mitel Corporation
350 Legget Drive
P.O. Box 13089
Kanata, Ontario
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(613) 592-2122

Rapport annuel en français

On peut se procurer la version française du rapport annuel 1996 auprès du service des relations publiques et des relations avec les investisseurs.

Transfer Agents and Registrars

Montreal Trust Company
Toronto, Ontario

First Chicago Trust Company of New York
New York, New York

Auditors

Ernst & Young
Ottawa, Ontario

Legal Counsel

McCarthy Tétrault
Montreal, Quebec

Rubin Baum Levin Constant & Friedman
New York, New York

Stock Exchange Listings

The Toronto Stock Exchange
The Montreal Stock Exchange
New York Stock Exchange
The Stock Exchange, London

Common Stock Symbol - MLT
Preferred Stock Symbol - MLT.PR.A
(TSE and ME only)

Manufacturing and Sales Office Locations

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Dayton, Ohio
East Syracuse, New York
Encino, California
Fairfax, Virginia
Ft. Lauderdale, Florida
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Houston, Texas
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Latham, New York
Little Chute, Wisconsin
Marietta, Georgia
Mendota Heights, Minnesota
Meriden, Connecticut
Milwaukee, Wisconsin
Naperville, Illinois
New Hartford, New York
New York, New York
+ Ogdensburg, New York
Orlando, Florida
Plainview, New York
Raleigh, North Carolina
Richmond, Virginia
Rocky River, Ohio
Sacramento, California
San Diego, California
Stevens-Point, Wisconsin
Stoneham, Massachusetts
Vestal, New York

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Aix-en-Provence, France
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Filderstadt, Germany
Heidelberg, Germany
Kasuga City, Japan
Mt. Dora, Florida
+ Portskewett, Wales
San Diego, California
Singapore, Malaysia
+ Järfälla, Sweden
Tokyo, Japan

+ *manufacturing location*

http://www.mitel.com

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